



**Auditor of State
Betty Montgomery**

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Ada Exempted Village School District
Hardin County
435 Grand Avenue
Ada, Ohio 45810

To the Board of Education:

We have audited the accompanying financial statements of the Ada Exempted Village School District (the "District") as of and for the fiscal year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 29, 2004

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types				Fiduciary Funds	Total (Memorandum Only)
	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trusts	
Revenues:						
From local sources:						
Taxes	\$1,957,571		\$469,352	\$140,452		\$2,567,375
Tuition	255,034					255,034
Earnings on investments	5,213	403		82,016	549	88,181
Extracurricular Activities		60,643				60,643
Other local revenues	15,609	22,571			12,951	51,131
Intergovernmental - State	3,508,323	23,143	59,262	37,669		3,628,397
Intergovernmental - Federal	3,033	319,169				322,202
Total revenue	<u>5,744,783</u>	<u>425,929</u>	<u>528,614</u>	<u>260,137</u>	<u>13,500</u>	<u>6,972,963</u>
Expenditures:						
Current:						
Instruction:						
Regular	2,900,910	62,174		17,600		2,980,684
Special	347,441	185,806			500	533,747
Vocational	129,202					129,202
Other	138,289					138,289
Support services:						
Pupil	267,672	4,480			300	272,452
Instructional staff	230,413	47,108			5,014	282,535
Board of Education	28,926					28,926
Administration	544,471	23,064				567,535
Fiscal	203,526		13,715	4,162		221,403
Operations and maintenance	429,041			14,488		443,529
Pupil transportation	272,020					272,020
Central		4,030				4,030
Extracurricular activities	190,113	60,380			10,651	261,144
Facilities services	11,888			111,999		123,887
Debt service:						
Principal retirement			169,529			169,529
Interest and fiscal charges			323,260			323,260
Total expenditures	<u>5,693,912</u>	<u>387,042</u>	<u>506,504</u>	<u>148,249</u>	<u>16,465</u>	<u>6,752,172</u>
Excess of revenues over (under) expenditures	50,871	38,887	22,110	111,888	(2,965)	220,791
Other financing sources (uses):						
Operating transfers in			9,529	6,006		15,535
Operating transfers out	(19,035)					(19,035)
Total other financing sources (uses)	<u>(19,035)</u>		<u>9,529</u>	<u>6,006</u>		<u>(3,500)</u>
Excess of revenues and other financing sources over (under) expenditures and other uses	31,836	38,887	31,639	117,894	(2,965)	217,291
Fund Cash Balances, July 1	831,365	39,682	123,729	7,648,563	68,479	8,711,818
Fund Cash Balances, June 30	<u><u>\$863,201</u></u>	<u><u>\$78,569</u></u>	<u><u>\$155,368</u></u>	<u><u>\$7,766,457</u></u>	<u><u>\$65,514</u></u>	<u><u>\$8,929,109</u></u>
Reserve for Encumbrances, June 30	<u><u>\$39,147</u></u>	<u><u>\$2,523</u></u>		<u><u>\$274,185</u></u>		<u><u>\$315,855</u></u>

The notes to the general purpose financial statements are an integral part of this statement

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Proprietary Fund Type	Fiduciary Funds		Total (Memorandum Only)
	Enterprise Funds	Nonexpendable Trust	Agency	
Operating revenues:				
Tuition and fees	\$24,654			\$24,654
Sales/charges for services	183,499			183,499
Investment Earnings		539		539
Extracurricular Activities			41,186	41,186
Other operating revenues		687		687
Total operating revenues	208,153	1,226	41,186	250,565
Operating expenses:				
Personal services	159,124			159,124
Contract services	136		24,672	24,808
Materials and supplies	137,677		25,869	163,546
Capital Outlay			427	427
Other Expenses		2,850	6,178	9,028
Total operating expenses	296,937	2,850	57,146	356,933
Operating (loss)	(88,784)	(1,624)	(15,960)	(106,368)
Nonoperating revenues:				
Grants	66,902			66,902
Interest revenue	558		272	830
Miscellaneous	4,770		7,085	11,855
Total nonoperating revenues	72,230		7,357	79,587
Net loss before operating transfers	(16,554)	(1,624)	(8,603)	(26,781)
Operating transfers in			3,500	3,500
Net (loss)	(16,554)	(1,624)	(5,103)	(23,281)
Fund Cash Balances, July 1	61,062	55,966	25,797	142,825
Fund Cash Balances, June 30	\$44,508	\$54,342	\$20,694	\$119,544
Reserve for Encumbrances, June 30	\$250			\$250

The notes to the general purpose financial statements are an integral part of this statement.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$5,621,687	\$5,744,783	\$123,096
Special Revenue Funds	443,683	425,929	(17,754)
Debt Service Funds	529,309	538,143	8,834
Capital Project Funds	295,210	266,143	(29,067)
Proprietary:			
Enterprise Funds	303,920	280,383	(23,537)
Fiduciary:			
Expendable Trust Funds	17,430	13,500	(3,930)
Non-Expendable Trust Funds	1,730	1,226	(504)
Total (Memorandum Only)	<u><u>\$7,212,969</u></u>	<u><u>\$7,270,107</u></u>	<u><u>\$57,138</u></u>

The notes to the financial statements are an integral part of this statement.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	FY 2004 <u>Appropriations</u>	<u>Total</u>
Governmental:			
General Fund	\$47,832	\$5,987,100	\$6,034,932
Special Revenue Funds	2,695	460,012	462,707
Debt Service Funds		506,789	506,789
Capital Project Funds	270,790	398,522	669,312
Proprietary:			
Enterprise Funds	215	323,935	324,150
Fiduciary:			
Expendable Trust Funds	1,029	31,425	32,454
Non-Expendable Trust Funds	<u> </u>	<u>4,600</u>	<u>4,600</u>
Total (Memorandum Only)	<u>\$322,561</u>	<u>\$7,712,383</u>	<u>\$8,034,944</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual FY 2004 Disbursements</u>	<u>Encumbrances Outstanding At 6-30-04</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$5,712,946	\$39,147	\$5,752,093	\$282,839
387,042	2,523	389,565	73,142
506,504		506,504	285
148,249	274,185	422,434	246,878
296,937	250	297,187	26,963
16,465		16,465	15,989
2,850		2,850	1,750
<u>\$7,070,993</u>	<u>\$316,105</u>	<u>\$7,387,098</u>	<u>\$647,846</u>

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**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Ada Exempted Village School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio, and is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under a locally-elected Board form of government and provides educational services as authorized by State and/or federal agencies. The Board consists of five members elected at large for staggered four year terms.

The District was established in 1862 through the consolidation of existing land areas and districts. The District serves an area of approximately 42 square miles. It is located in Hardin and Hancock Counties, including all of the Village of Ada, Ohio, and portions of Liberty and Orange Townships. The District is approximately the 530th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 26 non-certified employees, 64 certificated teaching personnel and 5 administrative employees to provide services to 851 students and other community members. The District currently operates three instructional buildings, one administrative building, and one garage.

A. Reporting Entity:

The reporting entity is composed of the primary government, component units and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support, to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. There are no component units of the District.

The District is associated with six organizations of which three are defined as jointly governed organizations, one a related organization, and two insurance purchasing pools. These organizations include the West Central Ohio Special Education Regional Resource Center (SERRC), Northwest Ohio Area Computer Services Cooperative, Apollo Joint Vocational School, Ada Public Library, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan. These organizations are presented in Notes 11, 12, and 13 to the general purpose financial statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report with generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principals. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

General Fund - The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Type:

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the District's proprietary fund type:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District's fiduciary funds include expendable trust, nonexpendable trust, and agency funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

1. Tax Budget:

With the passage of House Bill #129 (spring 2001), a county budget commission may waive the submission of a subdivision's annual tax budget. On August 6, 2002, the Hardin County Budget Commission adopted a resolution waiving the requirement for the adoption of a tax budget for fiscal year 2004 and all future fiscal years for all school districts within Hardin County. In lieu of a full tax budget, the Commission will require the school districts to submit a copy of the five-year forecast annually by October 31st. This waiver of the tax budget does not change any other financial reporting requirements.

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District.

The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

5. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds, including enterprise funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Property, Plant and Equipment

Fixed assets acquired or constructed are recorded as expenditures and not reported as assets under the cash basis of accounting used by the District. Depreciation is not recorded for these fixed assets.

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstance, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

G. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

H. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. PRIOR PERIOD ADJUSTMENT

During fiscal year 2003 the District received donations to establish the Katherine Brown Trust Fund. At that time the District did not have authoritative guidance over this fund. The District elected to report this fund as a non-expendable trust fund which is the most conservative accounting approach.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. PRIOR PERIOD ADJUSTMENT (Continued)

During fiscal year 2004, the District was informed by the Donor that that the existing and all subsequent donations could be spent and that the donations did not need to receive interest income. As a result, the District reclassified this fund from a non-expendable trust fund to an expendable trust fund. The reclassification of the fund from a non-expendable trust fund to an expendable trust fund had the following effect on Cash Receipts Over/(Under) Cash Disbursements, Net Income (Loss), and Fund Balances as previously reported at June 30, 2003:

June 30, 2003	Expendable Trusts	Non- Expendable Trusts
Reported Cash Receipts Over/(Under) Cash Disbursements	(\$2,725)	
Reported Net Income		\$6,054
Changes to Cash Receipts Over/(Under) Cash Disbursements and Net Income (Loss)	8,331	(8,331)
Restated Cash Receipts Over/(Under) Cash Disbursements	5,606	
Restated Net Income (Loss)		(2,277)
Reported Fund Balance	60,148	64,297
Cumulative effect of Reclassification	8,331	(8,331)
Restated Fund Balance	68,479	55,966

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$1,106,104 and the bank balance was \$1,216,702. Of the bank balance, \$222,630 was covered by federal depository insurance and \$994,072 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments: The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

The District's investment STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified because the investment is not evidenced by securities that exist in physical or book entry form.

	Category 2	Cost Value	Fair Value
Seasongood Asset Management	\$7,795,923	\$7,795,923	7,809,356
STAR Ohio		146,627	146,627
Total Investments		\$7,942,550	\$7,955,983

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District operates on a fiscal year from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date.

Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Hardin and Hancock Counties.

The Counties' Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$61,814,370	89.19%	\$63,064,540	89.44%
Public Utility Personal Property	3,304,930	4.77	3,278,370	4.65
Tangible Personal Property	4,184,569	6.04	4,164,432	5.91
Total Assessed Value	<u>\$69,303,869</u>	<u>100.00%</u>	<u>\$70,507,342</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.20		\$47.20	

6. INCOME TAX

The District levies a voted tax of 3/4 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2003, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the District contracted with Marsh USA, Inc. for fleet, liability insurance and property and inland marine coverage.

Coverages provided are as follows:

Building and Contents - replacement cost	(\$2,500 deductible)	\$16,069,808
Inland Marine Coverage:	(\$1,000 deductible)	
Electronic Data Processing		Actual cash value
Musical Instruments Coverage		Actual cash value
Boiler and Machinery – included in Building above	-included above	-included above
Automobile Liability		2,000,000
Uninsured Motorists		1,000,000
General Liability		
Per occurrence		2,000,000
Total per year		4,000,000
Umbrella		2,000,000

Public officials' bond insurance is provided by the Travelers Casualty and Surety Company of America.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 2004, the District participated in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool (Note 13).

The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

The District participates in the Hardin County Schools Health Benefit Fund and Trust (the "Plan"), a public entity shared risk pool (Note 13) consisting of six local school districts and the Hardin County Educational Service Center. The District pays monthly premiums to the Plan for employee medical, dental, life insurance and vision benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$70,403, \$66,709 and \$40,931 respectively; 100% percent has been contributed for fiscal year 2004, 2003 and 2002.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003 and 2002 respectively, the portion used to fund pension obligations was 13 and 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$424,688, \$421,311, and \$284,129 respectively; 100 percent has been contributed for fiscal year 2004, 2003, and 2002. Contributions to the DC Plan for fiscal year 2003 were \$8 made by the District and \$7 made by plan members. The District had no contributions under the Combined Plan.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all five members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

9. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$32,668.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,800 million at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$456,000,000, and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five fiscal years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the District, the amount to fund health care benefits, including the surcharge, was \$52,534, for fiscal year 2004.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737, and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 64,251 participants currently receiving health care benefits.

10. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Interest Rate	Principal Outstanding 6/30/2003	Additions	Deductions	Principal Outstanding 6/30/2004
Long-Term Obligations:					
1988 EPA Asbestos Loan:	0.00%	\$ 23,821		\$ 9,529	\$ 14,292
2002 School Facilities and Improvement Bonds:	Various	7,325,000		160,000	7,165,000
Capital Appreciation Bonds	9.40%	521,437			521,437
Total Long-Term Debt		\$7,870,258	\$0	\$169,529	\$7,700,729

School Facilities and Improvement Bonds: During June 2002, the District issued \$7,846,437 in general obligation bonds for the purpose of constructing a K-12 school building and an auditorium facility. The District is participating in the Expedited Local Partnership Program of the Ohio School Facility Commission, under which the State will fund a percentage of the District's future facilities needs. The bond issue consists of \$6,125,000 in serial bonds, \$1,200,000 in term bonds and \$521,437 in capital appreciation bonds. The serial bonds have interest rates from 2% to 5% and yield rates from 2% to 5.02%, maturing each fiscal year beginning in 2003 through 2012 and in 2017 through 2023. The term bonds have a 5% interest rate with final maturity on December 1, 2023 (fiscal year 2024) and December 1, 2024 (fiscal year 2025). The capital appreciation bonds have a stated interest rate of 9.4% (or the rate that, when applied to the original principal amount, compounded semi-annually results in the maturity amount) for an approximate yield to maturity of 4.7% to 4.95%. The bonds were issued for a twenty year period with final maturity at December 1, 2024. The bonds will be retired from the debt service fund.

The current interest serial bonds will bear interest, payable on June 1 and December 1 of each year, beginning December 1, 2002 until maturity or earlier redemption.

The capital appreciation bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2013 through 2016. The maturity amount of the bonds is \$1,565,000.

The term bonds with maturity on December 1, 2023 and December 1, 2024 are subject to mandatory sinking fund redemption prior to stated maturity.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

EPA Asbestos Loan: On July 28, 1986, Ada Exempted Village School District obtained a loan in the amount of \$171,513 for the purpose of providing asbestos removal for the Ada Exempted Village School District, under the authority of Ohio Revised Code section 3317.22. The loan was issued for a twenty fiscal year period with final maturity during fiscal year 2006. The loan is retired through the debt service fund.

The District's total voted legal debt margin was \$6,345,661 with an unvoted debt margin of \$70,507 at June 30, 2004. The District was approved as a special needs District by the Ohio Department of Education pursuant to Ohio Revised Code Section 133.06(E) based upon a future projected tax valuation of \$118,797,131 and a total indebtedness (based upon the projected valuation) of approximately 6.5%. The District exceeded the legal voted debt margin limitation by approximately \$1,185,000 during fiscal year 2004.

Pursuant to Ohio Revised Code 133.06, the Ohio Department of Education consented to allow the District to submit to the voters the question of issuing bonds in the amount of \$2,200,000 for constructing, furnishing, and equipping an auditorium facility. The popular vote approved the \$2,200,000 bond issue for the auditorium facility (reported above in the total bond issue of \$7,846,437) which resulted in the District exceeding the debt limitation.

Principal and interest requirements to retire general obligation debt, including the loan, outstanding at June 30, 2004 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 179,529	\$ 319,663	\$ 499,192
2006	184,763	315,100	499,863
2007	210,000	309,332	519,332
2008	225,000	302,361	527,361
2009	245,000	294,183	539,183
2010-2014	1,178,999	1,801,672	2,980,671
2015-2019	1,687,438	1,741,179	3,428,617
2020-2024	3,375,000	548,971	3,923,971
2025	415,000	10,375	425,375
Total	<u>\$7,700,729</u>	<u>\$5,642,836</u>	<u>\$13,343,565</u>

11. JOINTLY GOVERNED ORGANIZATIONS

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 W. Lima St., Suite A, Kenton, Ohio 43326-2385.

Northwest Ohio Area Computer Services Cooperative - The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC). NOACSC is an association of public school districts in within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the City of Wapakoneta, and to any area established in future law, by the Ohio Department of Education. The cooperative was formed for the purpose of developing and implementing a computer system to improve administrative and instructional functions for the member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent.

Financial information can be obtained from Mr. Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

Apollo Joint Vocational School - The Apollo Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the eleven participating school districts' elected boards, which possesses its own budgeting and taxing authority.

To obtain financial information write to the Apollo Joint Vocational School, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

12. RELATED ORGANIZATION

Ada Public Library - The Ada Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Ada School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees.

Financial information can be obtained from the Ada Library, Janet E. Klingler, Clerk/Treasurer, at 320 North Main, Ada, Ohio 45810.

13. INSURANCE PURCHASING POOLS

Hardin County School Employees' Health and Welfare Benefit and Trust - The Hardin County Schools Health Benefit Fund and Trust (the Trust) is a public entity shared risk pool consisting of six school districts and the Hardin County Educational Service Center.

The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. INSURANCE PURCHASING POOLS (Continued)

Each school district decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as director, at 220 East Columbus Street, P.O. Box 735, Kenton, Ohio 44326.

Ohio School Boards Association Workers' Compensation Group Rating Plan - The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235.

14. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...."

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

15. SET ASIDE DISCLOSURE

As stated in House Bill 412, revised in Senate Bill 345, school districts are required to maintain two reserves; one for capital acquisition and maintenance, and one for textbooks and other instructional materials. A reserve represents resources whose use is limited because of contractual or statutory restrictions.

The following demonstrates the District's compliance with set-aside requirement in Senate Bill 345:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set aside cash balance as of June 30, 2003	(\$160,962)	(\$256,000)
Current year set-aside requirement	118,803	118,803
Current year Offsets	0	(160,521)
Qualifying Disbursements	<u>(64,110)</u>	<u>(16,486)</u>
Set Aside Balance Carried Forward to Future Fiscal Years	<u>(\$106,269)</u>	<u>(\$314,204)</u>

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

15. SET ASIDE DISCLOSURE (Continued)

The District had qualifying expenditures during the fiscal year, along with a negative carry-over from the prior year that reduced the textbooks and capital improvements set-aside below zero at June 30, 2004. These amounts may be used to reduce the set-aside requirement in future years.

In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of workers' compensation refunds of \$25,175 continues to be set aside at fiscal year end. This balance must be spent according to S.B. 345.

16. CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

17. SIGNIFICANT CONTRACTS

At June 30, 2004, the District has a significant outstanding contract with Steed-Hammond-Paul for architect services related to the new school building project. The original contract was for \$539,000 and \$272,980 has been paid leaving a contract balance of \$266,020.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Ada Exempted Village School District
Hardin County
435 Grand Avenue
Ada, Ohio 45810

To the Board of Education:

We have audited the financial statements of the Ada Exempted Village, Hardin County (the "District") as of and for the year ended June 30, 2004, and have issued our report thereon September 29, 2004 wherein we noted that the District has prepared its financial statements on the basis of accounting previously prescribed by the Auditor of State which is a comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America. Except as discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated September 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated September 29, 2004.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

This report is intended for the information and use of the audit committee, management, and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 29, 2004

ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2004-001

Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the District should prepare their financial statements according to generally accepted accounting principles.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2003-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) - District did not report on the GAAP basis of accounting	No	Repeated as finding 2004-001



**Auditor of State
Betty Montgomery**

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**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 23, 2004**