

**SHELBY CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2003**



**Auditor of State
Betty Montgomery**

Board of Education
Shelby City School District
25 High School Avenue
P.O. Box 31
Shelby, Ohio 44875

We have reviewed the Independent Auditor's Report of the Shelby City School District, Richland County, prepared by Gary B. Fink & Associates, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Shelby City School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 3, 2004

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**SHELBY CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2003**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Shelby City School District
25 High School Avenue
PO Box 31
Shelby, OH 44875

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's financial statements, as listed in the table of contents. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the fiscal year ended June 30, 2003, the District adopted Governmental Accounting Standards Board Statements No. 34, No. 37, No. 38 and Interpretation No. 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 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.

INDEPENDENT AUDITOR'S REPORT (continued)

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

March 1, 2004

Shelby City School District
Richland County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

This discussion and analysis of the Shelby City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to better their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2003 are as follows:

- Net assets of governmental activities decreased \$3,609,986 while net assets of business-type activities increased \$7,056.
- General revenues accounted for \$13,529,554 in revenue or 87.6% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$1,910,676 or 12.4% of total revenues of \$15,440,230.
- The District had \$18,086,762 in expenses related to government activities; only \$1,039,376 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$13,437,400 were not adequate to provide for these programs.
- The District had \$956,398 in expenses related to business-type activities. Program revenues of \$871,300 were not adequate to provide for this service.
- Capital outlay additions of \$1,098,911 consisted of \$102,800 in both land improvements and building improvements, \$948,203 in furniture and equipment and \$47,908 in school buses and vehicles.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Shelby City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Shelby City School District, the general fund is the most significant fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question, “How did we do financially during fiscal year 2003?” These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District’s property tax base, current property laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District’s food service operation and uniform school supplies is reported as a business activity.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental funds begins on page 13. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the District’s most significant funds. The District’s only major governmental fund is the general fund.

Governmental Funds

Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will match information provided in the statements for the District as a whole.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as an endowment private purpose trust fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 18. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for fiscal year 2003.

	Net Assets		
	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Assets			
Current Assets	\$9,826,681	\$68,352	\$9,895,033
Capital Assets	4,497,503	89,269	4,586,772
Total Assets	<u>14,324,184</u>	<u>157,621</u>	<u>14,481,805</u>
Liabilities			
Current Liabilities	7,751,007	98,653	7,849,660
Long-Term Liabilities	4,486,774	24,121	4,510,895
Total Liabilities	<u>12,237,781</u>	<u>122,774</u>	<u>12,360,555</u>
Net Assets			
Invested in Capital Assets, Net of Debt	3,447,503	89,269	3,536,772
Restricted	5,076,464	0	5,076,464
Unrestricted (Deficit)	(6,437,564)	(54,422)	(6,491,986)
Total Net Assets	<u>\$2,086,403</u>	<u>\$34,847</u>	<u>\$2,121,250</u>

The table below shows the changes in net assets for fiscal year 2003:

Changes in Net Assets		
	Governmental Activities	Business-Type Activities
Revenues		
Program Revenues:		
Charges for Services	\$243,230	\$546,125
Operating Grants and Contributions	761,622	325,175
Capital Grants and Contributions	34,524	0
General Revenues:		
Property Taxes	6,128,869	0
Grants and Entitlements	7,054,025	0
Investment Earnings	83,524	35
Miscellaneous	263,101	0
Transfers In	0	92,119
Total Revenues	14,568,895	963,454
Expenses		
Program Expenses:		
Instruction:		
Regular	7,606,072	0
Special	1,971,561	0
Vocational	511,636	0
Other	61,412	0
Support Services:		
Pupils	981,336	0
Instructional Staff	1,195,893	0
Board of Education	38,796	0
Administration	1,373,686	0
Fiscal	654,773	0
Operation of Maintenance of Plant	1,550,072	0
Pupil Transportation	826,687	0
Central	72,222	0
Operation of Non-Instructional Services	101,269	0
Extracurricular Activities	539,778	0
Other	45,418	0
Capital Outlay	487,292	0
Interest and Fiscal Charges	68,859	0
Food Service	0	913,522
Uniform School Supplies	0	42,876
Transfers Out	92,119	0
Total Expenses	18,178,881	956,398
Decrease in Net Assets	(\$3,609,986)	\$7,056

Governmental Activities

Net assets of the District's governmental activities decreased by \$3,609,986. Program revenue of \$1,039,376 and general revenues of \$13,437,400 did not offset total governmental expenses of \$18,086,762. Program revenues supported 5.7% of the total governmental expenses.

Several revenue sources fund the District's governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated \$6,128,869 in fiscal year 2003. General revenues from grants and entitlements, such as the school foundation program, generated approximately \$7,054,025. These two revenue sources represent 91% of total governmental revenue.

Real estate property is reappraised every six years. Richland County had its triennial update in calendar year 2003. Although historical growth has had a positive effect on the District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. Thus, although the District tax valuation continues to grow, this built-in revenue limitation requires the District to request additional school operating revenue by placing a levy on the ballot every three to five years, on average.

The DeRolph III court case decisions have not eliminated the local dependence on property taxes. This factor continues to be a situation the District has to deal with in providing funding for the program offering of the District.

Instruction costs comprise 56% of governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants attributable to those services.

Business-Type Activities

Business-type activities consist of the food service and uniform school supplies operations. These programs had revenue of \$846,327 and \$24,973 with expenses of \$913,522 and \$42,876, respectively. The District's general fund supported the food service program by transferring \$92,119 to the food service program.

The District's Funds

The District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$15,148,272 and total expenditures were \$17,797,568. The District expenditures exceed the revenue by \$2,649,296. This fact is a major challenge for the District.

The District's general fund balance decreased by \$2,751,670. The decrease in fund balance can be attributed primarily to the overall increase in salaries, wages and fringe benefits along with revenues not keeping pace with the cost of operations.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the District's general fund.

During Fiscal Year 2003, the District amended its general fund balance. Budget revisions are presented to the Board of Education for approval. This increase was mainly due to the unexpected payment of delinquent personal property taxes by the LTV-Copperweld Corporation. This is a partial payment from the bankruptcy.

For the general fund, the final budget basis revenue estimate was \$15,946,832, which was higher than the original revenue estimate of \$14,434,373

The original expenditures estimate of \$15,302,225 was increased to \$17,949,251. The actual expenditures were \$17,422,125. The reason for the increase in actual expenditures over estimated expenditures was mainly due to some one-time expenditures for retiree incentives and an increase in health insurance of 24%.

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2003, the District had \$4,586,772 invested in land, buildings, equipment and vehicles. This is accounting for both Governmental Activities and Business-Type Activities assets. The table below shows a comparison of Fiscal Year 2003 to 2002.

Capital Assets as of June 30, 2003
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	2003	2002	2003	2002
Land and Improvements	\$387,402	\$420,513	\$0	\$0
Buildings and Improvements	1,554,446	1,624,376	0	0
Furniture and Equipment	2,315,717	1,824,033	89,269	89,980
Vehicles	239,938	309,567	0	0
Total Capital Assets	<u>\$4,497,503</u>	<u>\$4,178,489</u>	<u>\$89,269</u>	<u>\$89,980</u>

Debt

As of June 30, 2003 the District had \$1,050,000 in energy conservation bonds and \$1,207,126 from a State of Ohio Bankruptcy Loan. The energy conservation bonds will be repaid from general property tax monies with final maturity occurring in June, 2013. The State of Ohio Bankruptcy Loan was received in fiscal year 2002 to cover the loss of property taxes due to the LTV-Copperweld bankruptcy.

For the future

The District faces challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. An emergency operating levy of \$950,000 is up for renewal in May, 2006. This levy renewal will be a large factor in the planning of future operations. Starting with the 2003-2004 school year, the District Administration started a process of expenditure reductions. The reductions for the 2003-2004 school year have mainly been in equipment purchases and summer maintenance supplies and projects, approximating \$300,000. Reductions for the 2004-2005 school year will include some staff and benefits as well as continue the 2003-2004 reductions. The plan is to reduce an additional \$700,000 to make 2004-2005 school year savings approximately \$1,000,000.

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward schools districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. Since then, the Ohio Supreme Court has relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school-funding plan 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 its financial operations.

Due to the unsettled issues in Ohio public school funding, district management is required to plan carefully and prudently to provide the resources to meet student needs in the future.

The District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and show the District's accountability for the money it receives. If you have any questions about this report or need financial information contact, Mr. Michael Wade, Treasurer, Shelby City School District, 25 High School Avenue, PO Box 31, Shelby, Ohio 44875.

Shelby City School District
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,828,168	\$23,826	\$2,851,994
Receivables:			
Taxes	5,871,282	0	5,871,282
Accounts	3,618	5,989	9,607
Intergovernmental	21,000	29,138	50,138
Prepaid Items	20,779	0	20,779
Inventory Held for Resale	0	9,399	9,399
Material and Supplies Inventory	59,438	0	59,438
Restricted Assets:			
Equity in Pooled Cash and Cash Equiv	1,022,396	0	1,022,396
Land	323,098	0	323,098
Capital assets, net of depreciation	4,174,405	89,269	4,263,674
Total Assets	<u>\$14,324,184</u>	<u>\$157,621</u>	<u>\$14,481,805</u>
<u>Liabilities:</u>			
Accounts Payable	\$484,551	\$5,977	\$490,528
Accrued Wages	1,608,431	56,930	1,665,361
Pension Obligation Payable	312,199	35,746	347,945
Deferred Revenue	5,144,381	0	5,144,381
Accrued Interest Payable	4,463	0	4,463
Claims Payable	196,982	0	196,982
Long-Term Liabilities:			
Due within one year	475,751	313	476,064
Due in more than one year	4,011,023	23,808	4,034,831
Total Liabilities	<u>\$12,237,781</u>	<u>\$122,774</u>	<u>\$12,360,555</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	\$3,447,503	\$89,269	\$3,536,772
Restricted for:			
Set Asides	1,022,396	0	1,022,396
Other Purposes	4,054,068	0	4,054,068
Unrestricted (deficit)	(6,437,564)	(54,422)	(6,491,986)
Total Net Assets	<u>\$2,086,403</u>	<u>\$34,847</u>	<u>\$2,121,250</u>

See accompanying notes to the basic financial statements.

Shelby City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$7,606,072	48,958	\$290,250	\$7,771	(\$7,259,093)	\$0	(\$7,259,093)
Special	1,971,561	194,272	242,030	0	(1,535,259)	0	(1,535,259)
Vocational	511,636	0	0	0	(511,636)	0	(511,636)
Other	61,412	0	0	0	(61,412)	0	(61,412)
Support Services:							
Pupils	981,336	0	19,356	0	(961,980)	0	(961,980)
Instructional Staff	1,195,893	0	58,742	12,975	(1,124,176)	0	(1,124,176)
Board of Education	38,796	0	0	0	(38,796)	0	(38,796)
Administration	1,373,686	0	0	0	(1,373,686)	0	(1,373,686)
Fiscal	654,773	0	0	536	(654,237)	0	(654,237)
Operation and Maintenance	1,550,072	0	1,810	10,650	(1,537,612)	0	(1,537,612)
Pupil Transportation	826,687	0	13,771	2,592	(810,324)	0	(810,324)
Central	72,222	0	0	0	(72,222)	0	(72,222)
Operation of Non-Instructional Services	101,269	0	135,663	0	34,394	0	34,394
Extracurricular Activities	539,778	0	0	0	(539,778)	0	(539,778)
Other	45,418	0	0	0	(45,418)	0	(45,418)
Maintenance and Repair	487,292	0	0	0	(487,292)	0	(487,292)
Interest and Fiscal Charges	68,859	0	0	0	(68,859)	0	(68,859)
Total governmental activities	18,086,762	243,230	761,622	34,524	(17,047,386)	0	(17,047,386)
Business-Type activities:							
Food Service	913,522	521,152	325,175	0	0	(67,195)	(67,195)
Uniform Supplies	42,876	24,973	0	0	0	(17,903)	(17,903)
Total Business-Type activities	956,398	546,125	325,175	0	0	(85,098)	(85,098)
Total primary government	\$19,043,160	\$789,355	\$1,086,797	\$34,524	(17,047,386)	(85,098)	(17,132,484)
General Revenues:							
Property taxes levied for:							
General purposes					5,870,435	0	5,870,435
Capital projects					258,434	0	258,434
Grants and Entitlements not Restricted to Specific Purposes					7,054,025	0	7,054,025
Unrestricted Investment Earnings					83,524	35	83,559
Miscellaneous					263,101	0	263,101
Transfers					(92,119)	92,119	0
Total general revenues					13,437,400	92,154	13,529,554
Change in net assets					(3,609,986)	7,056	(3,602,930)
Net assets - Beginning of Fiscal Year					5,696,389	27,791	5,724,180
Net assets - End of Fiscal Year					\$2,086,403	\$34,847	\$2,121,250

See accompanying notes to the basic financial statements.

Shelby City School District
 Balance Sheet
 Governmental Funds
 June 30, 2003

Shelby City School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds		\$804,415
				Total Governmental Fund Balances	
				Amounts reported for governmental activities in the statement of net assets are different because:	
<u>Assets</u>				Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,497,503
Equity in Pooled Cash and Cash Equivalents	\$108,256	\$1,737,246	\$1,845,502	Other long-term assets are not available to pay current-period expenditures and therefore are deferred in the funds.	
Receivables:				Property Taxes	(469,069)
Taxes	5,620,392	250,890	5,871,282	Intergovernmental	(21,000)
Accounts	3,288	330	3,618		490,069
Intergovernmental	0	21,000	21,000		
Interfund Receivable	43,232	0	43,232	Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Prepaid Items	20,779	0	20,779	Intergovernmental Payable	(\$116,677)
Material and Supplies Inventory	59,438	0	59,438	Retirement Incentive Payable	(771,226)
Restricted Assets:				Compensated Absences Payable	(1,129,883)
Equity in Pooled Cash and Cash Equivalents	1,022,396	0	1,022,396	Capital Lease Payable	(211,862)
				State Property Tax Loan Payable	(1,207,126)
				G. O. Bonds and Notes Payable	(1,050,000)
				Accrued Interest Payable	(4,463)
					(4,491,237)
Total Assets	\$6,877,781	\$2,009,466	\$8,887,247	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	785,653
<u>Liabilities</u>				Net Assets of Governmental Activities	\$2,086,403
Accounts Payable	\$214,417	270,103	\$484,520		
Accrued Wages	1,530,989	77,442	1,608,431		
Interfund Payable	0	43,232	43,232		
Pension Obligation Payable	301,072	11,127	312,199		
Deferred Revenue-Property Taxes	5,373,470	239,980	5,613,450		
Deferred Revenue- Intergovernmental	0	21,000	21,000		
Total Liabilities	7,419,948	662,884	8,082,832		
<u>Fund Balances:</u>					
Reserved for Encumbrances	1,715,818	619,714	2,335,532		
Reserved for Taxes Unappropriated	246,922	10,910	257,832		
Reserved for Budget Stabilization	462,430	0	462,430		
Reserved for Capital Maintenance	233,776	0	233,776		
Reserved for Textbook	326,190	0	326,190		
Unreserved, Reported in:					
General Fund (Deficit)	(3,527,303)	0	(3,527,303)		
Special Revenue Funds (Deficit)	0	650,075	650,075		
Debt Service Fund (Deficit)	0	19	19		
Capital Projects Funds (Deficit)	0	65,864	65,864		
Total Fund Balances (Deficit)	(542,167)	1,346,582	804,415		
Total Liabilities and Fund Balances	\$6,877,781	\$2,009,466	\$8,887,247		

See accompanying notes to the basic financial statements.

Shelby City School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

Shelby City School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities:

	General	Other Governmental Funds	Total Governmental Funds		
				Net Change in Fund Balances-Total Governmental Funds	(\$2,741,415)
Revenues:				Amounts reported in governmental activities in the statement of activities are different because:	
Taxes	\$6,116,451	\$269,381	\$6,385,832	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the current period.	
Intergovernmental	7,044,731	1,159,988	8,204,719	Capital Outlays	\$867,536
Investment Income	50,895	495	51,390	Depreciation	<u>(779,897)</u>
Tuition	4,764	0	4,764		87,639
Extracurricular Activities	44,194	194,272	238,466		
Miscellaneous	24,196	238,905	263,101		
Total Revenues	<u>13,285,231</u>	<u>1,863,041</u>	<u>15,148,272</u>	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Expenditures:				Property Taxes	(256,963)
Current:				Grants	<u>(354,548)</u>
Instruction:				Repayment of bond principal and capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.	(579,377)
Regular	7,342,066	283,268	7,625,334	Bonds	110,000
Special	1,422,983	383,338	1,806,321	Capital Leases	<u>115,261</u>
Vocational	456,370	0	456,370		225,261
Other	61,412	0	61,412	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	467
Support Services:				Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Pupil	845,211	96,489	941,700	Retirement Incentive	33,528
Instructional Staff	725,167	543,797	1,268,964	Change in Inventory	6,876
Board of Education	38,477	0	38,477	Compensated Absences	62,938
Administration	1,363,382	9,593	1,372,975	Pension Obligations	<u>18,325</u>
Fiscal	642,821	9,903	652,724		121,667
Operation and Maintenance	1,527,339	214,806	1,742,145	The internal service fund used by management to charge the cost of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities.	(724,228)
Pupil Transportation	687,915	54,643	742,558	Change in Net Assets of Governmental Activities	<u>(\$3,609,986)</u>
Central	72,085	0	72,085		
Operation of Non-Instructional Services	3,170	149,340	152,510		
Extracurricular Activities	429,679	136,227	565,906		
Facility Acquisition and Construction	3,500	0	3,500		
Debt Service:					
Principal Retirement	115,261	110,000	225,261		
Interest and Fiscal Charges	10,166	59,160	69,326		
Total Expenditures	<u>15,747,004</u>	<u>2,050,564</u>	<u>17,797,568</u>		
Excess of Revenues (Under) Expenditures	<u>(2,461,773)</u>	<u>(187,523)</u>	<u>(2,649,296)</u>		
Other Financing Sources (Uses):					
Operating Transfers In	0	612,778	612,778		
Operating Transfers Out	<u>(289,897)</u>	<u>(415,000)</u>	<u>(704,897)</u>		
Total Other Financing Sources (Uses)	<u>(289,897)</u>	<u>197,778</u>	<u>(92,119)</u>		
Net Change in Fund Balance	<u>(2,751,670)</u>	<u>10,255</u>	<u>(2,741,415)</u>		
Fund Balances at Beginning of Year (Restated)	2,202,627	1,336,327	3,538,954		
Increase in Reserve for Inventory	6,876	0	6,876		
Fund Balances (Deficits) End of Year	<u>(\$542,167)</u>	<u>\$1,346,582</u>	<u>\$804,415</u>		

See accompanying notes to the basic financial statements.

Shelby City School District
 Combined Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 General Fund
 For the Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Budget</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues:</u>				
Taxes	\$6,781,642	\$6,792,482	\$7,208,547	\$416,065
Tuition	0	2,815	4,710	1,895
Transportation Fees	0	6,360	8,191	1,831
Intergovernmental	7,526,292	9,017,169	7,330,665	(1,686,504)
Investment Income	0	77,503	50,895	(26,608)
Classroom Materials and Fees	0	37,632	36,014	(1,618)
Other	126,439	12,871	4,535	(8,336)
Total Revenues	14,434,373	15,946,832	14,643,557	(1,303,275)
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Instruction:</u>				
Regular	7,401,238	7,375,665	7,357,292	18,373
Special	1,218,034	1,871,273	1,448,918	422,355
Vocational	455,581	465,115	464,466	649
Other	151,600	215,463	179,601	35,862
<u>Support Services:</u>				
Pupil	720,397	949,632	945,278	4,354
Instructional Staff	830,076	869,307	868,405	902
Board of Education	27,250	36,215	35,795	420
Administration	1,328,751	2,580,734	2,579,927	807
Fiscal	537,603	625,135	624,961	174
Operation and Maintenance of Plant	1,391,014	1,686,244	1,685,298	946
Pupil Transportation	737,825	743,775	709,994	33,781
Central	65,689	73,689	73,132	557
<u>Operation of Non-</u>				
Instructional Services	420	6,920	6,565	355
Extracurricular Activities	426,569	439,656	438,993	663
Facilities Acquisition and Construction Services	10,178	10,428	3,500	6,928
Total Expenditures	15,302,225	17,949,251	17,422,125	527,126
Excess of Revenues (Under) Expenditures	(867,852)	(2,002,419)	(2,778,568)	(776,149)
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	11,474	11,703	17,730	6,027
Operating Transfer In	42,082	16,823	42,174	25,351
Operating Transfer Out	0	(332,071)	(332,071)	0
Advances-In	0	276,774	169,003	(107,771)
Total Other Sources (Uses)	53,556	(26,771)	(103,164)	(76,393)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(814,296)	(2,029,190)	(2,881,732)	(852,542)
Fund Balances at Beginning of Year	1,495,199	1,495,199	1,495,199	0
Prior Year Encumbrances	604,097	604,097	604,097	0
Fund Balances (Deficit) at End of Year	\$1,285,000	\$70,106	(\$782,436)	(\$852,542)

See accompanying notes to the basic financial statements.

Shelby City School District
Statement of Net Assets
Proprietary Funds
June 30, 2003

	<u>Business-Type Activities Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<u>Assets:</u>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$23,826	\$982,666
Receivables:		
Accounts	5,989	0
Intergovernmental	29,138	0
Inventory Held for Resale	<u>9,399</u>	<u>0</u>
Total Current Assets	68,352	982,666
<u>Noncurrent Assets:</u>		
Capital Assets, (Net)	<u>89,269</u>	<u>0</u>
Total Assets	<u><u>\$157,621</u></u>	<u><u>\$982,666</u></u>
<u>Liabilities:</u>		
Current Liabilities:		
Accounts Payable	\$5,977	\$31
Accrued Wages	56,930	0
Intergovernmental Payable	35,746	0
Claims Payable	0	196,982
Compensated Absences Payable	<u>313</u>	<u>0</u>
Total Current Liabilities	98,966	197,013
Long-Term Liabilities:		
Compensated Absences Payable	<u>23,808</u>	<u>0</u>
Total Long-Term Liabilities	<u>23,808</u>	<u>0</u>
Total Liabilities	122,774	197,013
<u>Net Assets:</u>		
Invested in capital assets, net of related debt	89,269	0
Reserved for Claims	0	782,466
Unrestricted	<u>(54,422)</u>	<u>3,187</u>
Total Net Assets	<u><u>\$34,847</u></u>	<u><u>\$785,653</u></u>

See accompanying notes to the basic financial statements.

Shelby City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-Type Enterprise Funds	Governmental Activities - Internal Service Fund
<u>Operating Revenues:</u>		
Food Services	\$521,152	\$0
Classroom Materials and Fees	24,973	0
Charges for Services	0	1,428,183
Extracurricular Activities	0	7,803
Other Operating Revenue	0	65,841
	<hr/>	<hr/>
Total Operating Revenues	546,125	1,501,827
	<hr/>	<hr/>
<u>Operating Expenses:</u>		
Salaries	244,950	0
Fringe Benefits	220,578	0
Purchased Services	48,686	5,953
Materials and Supplies	155,541	6,199
Cost of Sales	274,636	0
Depreciation	12,007	0
Claims	0	2,138,554
Other	0	75,349
	<hr/>	<hr/>
Total Operating Expenses	956,398	2,226,055
	<hr/>	<hr/>
Operating (Loss)	(410,273)	(724,228)
	<hr/>	<hr/>
<u>Non-Operating Revenues:</u>		
Federal Donated Commodities	118,248	0
Operating Grants	206,927	0
Interest Income	35	32,134
	<hr/>	<hr/>
Total Non-Operating Revenues	325,210	32,134
	<hr/>	<hr/>
(Loss) before contributions and transfers	(85,063)	(692,094)
	<hr/>	<hr/>
Transfers in	92,119	0
	<hr/>	<hr/>
Change in Net Assets	7,056	(692,094)
	<hr/>	<hr/>
Total Net Assets at Beginning of Year	27,791	1,477,747
	<hr/>	<hr/>
Total Net Assets at End of Year	<u>\$34,847</u>	<u>\$785,653</u>

See accompanying notes to the basic financial statements.

Shelby City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003

	Business-Type Enterprise Funds	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities:		
Cash Received from Customers	\$544,550	\$1,428,183
Cash Received from Extracurricular Activities	0	7,803
Cash Received from Other Operating Sources	0	65,841
Cash Payments to Suppliers for Goods and Services	(356,892)	(12,121)
Cash Payments to Employees for Services	(291,947)	0
Cash Payments for Employee Benefits	(165,297)	0
Cash Payments for Claims	0	(2,167,530)
Cash Payments for Other	0	(75,496)
Net Cash (Used in) Operating Activities	<u>(269,586)</u>	<u>(753,320)</u>
Cash Flows from Noncapital Financing Activities:		
Operating Grants Received	206,690	0
Operating Transfers In	92,119	0
Net Cash Provided by Noncapital Financing Activities	<u>298,809</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions	(11,296)	0
Net Cash (Used in) Capital and Related Financing Activities	<u>(11,296)</u>	<u>0</u>
Cash flows from Investing Activities:		
Interest on Investments	35	32,134
Net Cash Provided by Investing Activities:	<u>35</u>	<u>32,134</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,962	(721,186)
Cash and Cash Equivalents Beginning of Year	5,864	1,703,852
Cash and Cash Equivalents End of Year	<u>\$23,826</u>	<u>\$982,666</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating (Loss)	(\$410,273)	(\$724,228)
Adjustments:		
Net Cash from Operating Activities:		
Depreciation	12,007	0
Donated Commodities Revenue	118,248	0
(Increase) Decrease in Assets:		
Accounts Receivable	(1,575)	0
Inventory Held for Resale	2,428	0
Increase (Decrease) in Liabilities:		
Accounts Payable	5,411	(116)
Accrued Wages	6,399	0
Compensated Absences Payable	319	0
Intergovernmental Payable	1,566	0
Claims Payable	0	(28,976)
Deferred Revenue	(4,116)	0
Total Adjustments	<u>140,687</u>	<u>(29,092)</u>
Net Cash (Used in) Operating Activities	<u>(\$269,586)</u>	<u>(753,320)</u>

See accompanying notes to the basic financial statements.

Shelby City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$836,529	\$61,707
Investments:		
In Segregated Accounts	5,760	0
Accrued Interest Receivable	<u>2,159</u>	<u>0</u>
Total Assets	<u><u>\$844,448</u></u>	<u><u>\$61,707</u></u>
<u>Liabilities:</u>		
Accounts Payable	\$0	\$1,712
Undistributed Monies	0	1,002
Due to Students	<u>0</u>	<u>58,993</u>
Total Liabilities	<u>0</u>	<u><u>61,707</u></u>
<u>Net Assets:</u>		
Restricted for:		
Reserved for Principal Endowment	233,460	
Total Restricted		
Unrestricted:		
Held in Trusts for Scholarships	<u>610,988</u>	
Total Net Assets	<u><u>\$844,448</u></u>	

See accompanying notes to the basic financial statements.

Shelby City School District
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 For the Fiscal Year Ended June 30, 2003

	Private Purpose Trust
	<u>Scholarship</u>
<u>Additions:</u>	
Interest Income	\$4,449
Other Operating Income	<u>9,341</u>
Total Additions	<u>13,790</u>
<u>Deductions:</u>	
Other	<u>30,716</u>
Total Deductions	<u>30,716</u>
Change in Net Assets	(16,926)
Net Assets Beginning of Year	<u>861,374</u>
Net Assets End of Year	<u><u>\$844,448</u></u>

See accompanying notes to the basic financial statements.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 -- DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Shelby City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under an elected Board of Education (5 members) elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District was established in 1854 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 72 square miles. It is located in Richland County, and includes all of the City of Shelby and portions of Sharon, Plymouth, Jackson, Bloomingrove and Franklin Townships. The School District is the 240th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 141 noncertificated employees and 190 certificated full-time teaching personnel who provide services to 2,304 students and other community members. The School District currently operates six instructional buildings, one administrative building, and one garage.

Reporting Entity A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Shelby City School District, this includes general operations, food service, and student related activities of the School District.

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

Related Organization:

The School District is associated with three organizations, which are defined as a joint venture, a jointly governed organization, and an insurance purchasing pool. These organizations include the North Central Ohio Computer Cooperative, the Pioneer Career and Technology Center, a Vocational School District, and the Ohio School Boards Association Worker's Compensation Group Rating Plan. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. BASIS OF PRESENTATION

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. FUND ACCOUNTING

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund is the School District's only major governmental funds:

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

The other governmental funds of the School District account for grants and other resources, debt service, and capital project whose uses are restricted to a particular purpose.

Proprietary Funds Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's trust funds are a private purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are due to students for activities they have participated in. The school district does not have any pension or investment trust funds.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

C. MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives an receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used of the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are meant are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. CASH AND INVESTMENTS

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to common stock donated in 1980 to a non-expendable trust fund, repurchase agreements and STAR Ohio.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$50,895 which includes \$18,124 assigned from other School District Funds.

**SHELBY CITY SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents use is limited by legal requirements. Restricted assets include unexpended revenues restricted for budget stabilization. See Note 16 for the calculation of the fiscal year-end restricted asset balance and the corresponding fund balance reserve.

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

I. INVENTORIES

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in/first-out (FIFO) basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

J. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the Food Service enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful live of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15
Buildings and Improvements	40
Furniture and Equipment	10
Vehicles	10

**SHELBY CITY SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

K. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

L. COMPENSATED ABSENCES

Compensated absences of the School District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the School District and the employee.

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age forty-five (45) or greater with at least fifteen (15) years of service; or fifty years old with any service were considered expected to become eligible to retire in accordance with GASB 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgements, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

N. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

O. FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, available debt service equity, property taxes, and budget stabilization in the governmental funds. The principal amount of the private purpose trust endowments is reserved in the fiduciary funds.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenue and expenditures.

P. OPERATING REVENUES AND EXPENSE

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition for adult education classes, sales for food service and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Q. CONTRIBUTION OF CAPITAL

Contributions of capital in Food Service enterprise fund financial statements arise from outside contributions of fixed assets, or from grant or outside contributions of resources restricted to capital acquisition and construction.

R. INTERFUND TRANSACTIONS

Transfers between governmental and business-type activities on the governmental-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expense in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

T. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 -- CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

- A. Changes in Accounting Principles** For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37 "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB 37 and 38.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements split the School District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental fund at June 30, 2002, based on the guidance provided in Statement No. 34 and by the conversion to the accrual basis of accounting. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

- B. Restatement of Fund Balance** The restatements of GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$2,187,650	\$1,327,529	\$3,515,179
Reclassification of Funds		8,798	8,798
Interpretation 6 Adjustment:			
Compensated Absences Payable	<u>14,977</u>	-	<u>14,977</u>
Adjusted Fund Balance	<u>\$2,202,627</u>	<u>\$1,336,327</u>	<u>\$3,538,954</u>
GASB 34 Adjustments:			
Capital Assets			4,226,560
Accrued Interest Payable			(4,930)
Internal Service Fund Elimination			1,477,747
Long-Term Liabilities			(4,643,522)
Long-Term (Deferred) Assets			<u>1,101,580</u>
Governmental Activities Net Assets, June 30, 2002			<u>\$5,696,389</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

C. Governmental Activities – Restatement of Capital Lease Payable The beginning balances have been restated due to a prior year error.

	Governmental Activities
Capital Lease Payable June 30, 2002	\$143,819
Correction of an Error	(48,071)
Restated Capital Lease Payable as of June 30, 2002	\$95,748

NOTE 4 -- BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for each major governmental fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund:

General	Net Change in Fund Balance
<u>Budget Basis</u>	\$(2,881,732)
Adjustments:	
Revenue Accruals:	
Accrued FY2002, Received in Cash FY2003	(1,668,440)
Accrued FY2003, Not Yet Received in Cash	267,940
Expenditure Accruals:	
Accrued FY2002, Paid in Cash FY2003	1,748,156
Accrued FY2003, Not Yet Paid in Cash	(1,983,525)
Encumbrances Outstanding (Budget Basis)	1,952,664
Other Financial Sources/Uses:	
Advances (Net)	(169,003)
Refunds	(17,730)
GAAP Basis	\$(2,751,670)

NOTE 5 -- DEPOSITS AND INVESTMENTS

Deposits:

Statutes require the classification of monies held by the School District into three categories:

Active Deposits: those monies required to be kept in a "cash" or "near-cash" status for immediate use by the School District. Such monies must by law be maintained either as cash in the School District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

**SHELBY CITY SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Inactive Deposits: those monies not required for use within the current two year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits: 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.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 money deposited with the institution.

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;
2. Bonds, notes, debentures, or other obligations of 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 the Student Loan Marketing Association. All federal agency securities shall be direct issuances of 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 repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market 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 (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 mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

Investments in stripped principal or interest obligations, reverse repurchase 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 Shelby City School 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$4,685 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3. "Deposits With Financial Institutions, Investments (Including Repurchased Agreements), and Reverse Repurchase Agreements.

Deposits At fiscal year end, the carrying amount of the School's deposits was \$675,529 and the bank balance was \$1,195,369. Of the bank balance, \$200,000 was covered by federal depository insurance and \$995,369 was collateralized by securities pledged on the School District's deposits.

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Investments The School District's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 Local School District's name. The School District's investment in STAR Ohio is unclassified because it is not evidenced by securities that exist in physical or book.

	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Category 1:</u>		
Common Stock	\$5,760	\$5,760
<u>Category 3:</u>		
Repurchased Agreements	243,558	243,558
<u>Not Subject to Categorization:</u>		
STAR OHIO	<u>3,848,854</u>	<u>3,848,854</u>
Total Investments	<u>\$4,098,172</u>	<u>\$4,098,172</u>

Net increase in the fair value of applicable investments during fiscal year 2003 per GASB Statement 31 is as follows:

Fair value at June 30, 2002	\$19,600
Fair value at June 30, 2003	<u>5,760</u>
Decrease in fair value of investments during fiscal year 2003	\$13,840

A reconciliation between the classifications of pooled cash and cash equivalents and investments on the Combined Balance Sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$4,778,386	\$5,760
Cash on Hand	(4,685)	
Stock	(5,760)	3,848,854
STAROhio	(3,848,854)	3,848,854
Repurchase Agreements	<u>(243,558)</u>	<u>243,558</u>
GASB Statement 3	<u>\$ 675,529</u>	<u>\$4,098,172</u>

NOTE 6 -- PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**SHELBY CITY SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Seneca County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2003, was \$246,922 in the General Fund, and \$10,910 in the Permanent Improvement Fund. The assessed values upon which the fiscal year 2003 taxes were collected are:

	<u>2002 First</u>		<u>2003 Second</u>	
	<u>Half Collections</u>		<u>Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$131,809,950	58%	\$144,193,300	61%
Public Utility Real and Personal	8,730,680	4%	8,953,520	4%
Commercial & Industrial Real	38,033,010	17%	36,229,290	15%
Tangible Personal Property	<u>49,746,955</u>	<u>21%</u>	<u>47,336,780</u>	<u>20%</u>
Total Assessed Value	\$228,320,595	100%	\$236,712,890	100%
Tax rate per \$1,000 of assessed valuation	\$49.70		\$49.60	

NOTE 7 -- RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

**SHELBY CITY SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Receivables</u>	<u>Amount</u>
<u>Governmental Activities:</u>	
<u>Property Taxes:</u>	
General:	
Current	\$5,171,172
Delinquent	<u>449,220</u>
Total General Fund	5,620,392
Permanent Improvement:	
Current	231,041
Delinquent	<u>19,849</u>
Total Permanent Improvement	250,890
Total Property Taxes	5,871,282
<u>Accounts Receivable:</u>	
General	3,288
Principal Fund	<u>330</u>
Total Accounts Receivable	3,618
<u>Intergovernmental Receivables:</u>	
Special Revenue:	
Title VI-B	<u>21,000</u>
Total Intergovernmental Receivables	21,000
Total Governmental Activities	\$5,895,900
<u>Business-Type Activities:</u>	
<u>Accounts Receivable</u>	
Food Service	\$5,947
Uniform Supplies	<u>42</u>
Total Accounts Receivable	5,989
<u>Intergovernmental Receivable:</u>	
Food Service	<u>29,138</u>
Total Intergovernmental Receivable	<u>29,138</u>
Grand Total	<u>\$ 5,931,027</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 -- CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Balance 6/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/03</u>
Governmental Activities				
Land	\$ 323,098	\$ -	-	\$323,098
Land Improvements	496,669	-	-	496,669
Buildings and Improvements	6,856,037	102,800	-	6,958,837
Furniture and Equipment	3,584,088	948,203	37,404	4,494,887
School Buses and Vehicles	<u>1,144,451</u>	<u>47,908</u>	<u>-</u>	<u>1,192,359</u>
Totals at Historical Cost	<u>\$12,404,343</u>	<u>\$1,098,911</u>	<u>\$ 37,404</u>	<u>\$13,465,850</u>
Less Accumulated Depreciation:				
Land Improvements	\$ 399,254	\$ 33,111	\$ -	\$432,365
Buildings and Improvements	5,231,661	172,730	-	5,404,391
Furniture and Equipment	1,760,055	456,519	37,404	2,179,170
School Buses and Vehicles	<u>834,884</u>	<u>117,537</u>	<u>-</u>	<u>952,421</u>
Total Accumulated Depreciation	<u>8,225,854</u>	<u>779,897</u>	<u>37,404</u>	<u>8,968,347</u>
Governmental Activities Capital Assets, Net	<u>\$4,178,489</u>	<u>\$319,014</u>	<u>\$ -</u>	<u>\$4,497,503</u>
Business-Type Activities				
Furniture and Equipment	\$ 217,203	\$ 11,296	\$ 1,250	\$227,249
Less Accumulated Depreciation	<u>127,223</u>	<u>12,007</u>	<u>1,250</u>	<u>137,980</u>
Business-Type Activities Capital Assets, Net	<u>\$ 89,980</u>	<u>\$(711)</u>	<u>\$ -</u>	<u>\$89,269</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$69,224
Special Instruction	1,964
Vocational Instruction	4,784
Support Service:	
Pupils	2,031
Instructional Staff	112,553
Administration	4,910
Fiscal Services	1,265
Operation and Maintenance of Plant	30,121
Transportation	57,508
Extracurricular	5,688
Non-Instructional	2,557
Facilities Acquisition and Construction Services	<u>487,292</u>
Total Depreciation Expense	<u>\$ 779,897</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The following estimated useful lives are used to compute depreciation:

Land Improvements	15 years
Buildings and Improvements	40 years
Equipment	10 years
Vehicles	10 years

NOTE 9 -- RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted for budget stabilization purposes:

General:

Assets:

Equity in Pooled Cash and Cash Equivalents:	<u>\$1,022,396</u>
Total Governmental Activities Restricted Assets	<u>\$1,022,396</u>

NOTE 10 -- INTERFUND RECEIVABLE/INTERFUND PAYABLE

A. Interfund loans receivable/payable consisted of the following at June 30, 2003, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$43,232

The primary purpose of the interfund balances is to cover costs in specific fund where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

B. Interfund Transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	\$197,779
Business Type Activities	92,119
Total	<u>\$289,897</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11 -- RISK MANAGEMENT

The School 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 School District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 1,000	\$42,738,056
Business Income	-	25,000
Extra Expense	-	300,000
Commercial Computer Equipment	100	1,268,390
Theft, Disappearance and Destruction	500	\$25,000
Automobile Liability	250	2,000,000
Uninsured Motorists	250	1,000,000
General Liability	3,000	1,000,000/5,000,000

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Settled claims have not exceeded this commercial coverage in any of the past three years. For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. 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 performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical, life, and dental insurance are offered to employees through a self-insurance internal service fund. The claims liability of \$196,982 reported in the internal service fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of <u>Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance at <u>End of Year</u>
2001	\$149,644	\$1,178,196	\$1,134,228	\$193,612
2002	\$193,612	\$1,877,750	\$1,845,404	\$225,958
2003	\$225,958	\$2,138,554	\$2,167,530	\$196,982

NOTE 12 -- DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.83 percent was the portion used to fund pension obligations for the fiscal year 2003.. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to SERS for the fiscal years ending June 30, 2003, 2002, and 2001, were \$409,983, \$357,072, and \$313,392 respectively; 86.37 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001 . The unpaid contribution for fiscal year 2003 is \$55,878.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and health benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a public available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations for fiscal year 2003. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions to STRS for the fiscal years ending June 30, 2003, 2002, and 2001 were \$1,170,021, \$1,104,175, and \$1,090,908, respectively; 85.38 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$171,076.

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, 2000 four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 -- POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation 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 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$83,573 for the fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five 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 this fiscal year ending June 30, 2002, employer contributions to fund health care benefits were 8.54% 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 2002, the minimum pay had been established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$218,253 for the fiscal year 2003.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The surcharge rate 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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS's net assets available for payment of health care benefits was \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 14 -- LONG-TERM LIABILITIES

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/02	Additions	Reductions	Principal Outstanding 6/30/03	Amounts Due In One Year
Governmental Activities					
Energy Conservation Bonds	\$1,160,000	\$ -	\$110,000	\$1,050,000	\$105,000
State of Ohio Bankruptcy Loan	1,207,126	-	-	1,207,126	-
Retirement Incentive	804,754	-	33,528	771,226	-
Compensated Absences	1,177,844	-	47,961	1,129,883	129,321
Pension Obligation Payable	135,002	-	18,325	116,677	116,677
Capital Lease Payable	<u>95,748</u>	<u>231,375</u>	<u>115,261</u>	<u>211,862</u>	<u>124,753</u>
Total Governmental Activities Long-Term Liabilities	<u>\$4,580,474</u>	<u>\$ 231,375</u>	<u>\$325,075</u>	<u>\$4,486,774</u>	<u>\$475,751</u>
Business-Type Activities					
Compensated Absences Payable	<u>\$23,802</u>	<u>\$319</u>	<u>\$ -</u>	<u>\$24,121</u>	<u>\$313</u>
Total Business-Type Activities	<u>\$23,802</u>	<u>\$319</u>	<u>\$ -</u>	<u>\$24,121</u>	<u>\$313</u>
Total Long Term Liabilities			<u>\$4,510,895</u>	<u>\$476,064</u>	

Energy Conservation Bond - On June 1, 1998, the School District issued \$1,600,000 in bonds. The bonds were issued for a fifteen-year period with final maturity at June 1, 2013. The bonds will be retired from the debt service fund. The interest rate of the bonds is 5.1 percent.

The State of Ohio Bankruptcy loan is due to a local business filing for Chapter Eleven receivership. The loan will be paid back when the receivership is finalized.

Compensated absences and pension obligation payables, representing the School District's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund.

Principal and Interest requirement to retire the School districts General Obligation Bonds outstanding at June 30, 2003, were as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$105,000	\$53,150	\$158,150
2005	105,000	48,195	153,195
2006	105,000	42,840	147,840
2007	105,000	37,485	142,485
2008	105,000	32,140	137,140
Thereafter	<u>525,000</u>	<u>80,325</u>	<u>605,325</u>
Totals	<u>\$1,050,000</u>	<u>\$294,135</u>	<u>\$1,344,135</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The Ohio Revised Code provides that voted net general obligation debt of the School District shall never exceed 9% of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the School District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$21,304,160 (including available funds of \$10,928) and an unvoted debt margin of \$236,713.

NOTE 15 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for the acquisition of reproduction equipment, food service equipment and school buses. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds and as function expenditures on the budgetary basis. Capital assets acquired by lease have been capitalized in a amount equal to the present value of the future minimum lease payments as of the date of their inception. A liability was recorded in the Government Wide Financial Statements for \$211,862. Principal payments in the 2003 fiscal year totaled \$115,261. This amount is reflected as "Debt Service Principal" in the General Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003:

<u>June 30 Year Ending</u>	<u>Capital Lease Liability</u>
2004	\$110,594
2005	110,594
2006	<u>7,397</u>
Total Minimum Lease Payments	228,564
Less: Amount Representing Interest	<u>(16,702)</u>
Present Value of Future Minimum Lease Payment	<u>\$211,862</u>

NOTE 16 -- SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amount not spend by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements:

	<u>Capital Maintenance Reserve</u>	<u>Textbook Set-Aside Reserve</u>	<u>Budget Stabilization</u>	<u>Total</u>
Balance 7/1/02	\$382,499	\$581,135	\$462,430	\$1,426,064
Required Set-Aside Qualifying	330,061	330,061	-	660,122
Expenditures	<u>(478,784)</u>	<u>(585,006)</u>	<u>-</u>	<u>(1,063,790)</u>
Balance 6/30/03	<u>\$233,776</u>	<u>\$326,190</u>	<u>\$462,430</u>	<u>\$1,022,396</u>
Total Restricted Assets-General Fund				<u>\$1,022,396</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 17 -- JOINT VENTURE WITHOUT EQUITY INTEREST

North Central Ohio Computer Cooperative - The North Central Ohio Computer Cooperative (NCOCC) is a governmental joint venture consisting of 21 school districts and two county boards of education. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each member district supports NCOCC based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the NCOCC, all current members will share in the net obligations or asset liquidation in a ratio proportionate to their last twelve months' financial obligations. NCOCC is governed by a Board of Directors, consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have an equity interest in NCOCC as the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Jerry Payne, who serves as the Treasurer, at P. O. Box 309, 27 Ryan Road, Shelby, Ohio 44875.

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

Pioneer Joint Vocational School District - The Pioneer Joint Vocational School District 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 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Pioneer Career and Technology Center, a Vocational School District, Jerry A. Payne, who serves as Treasurer, at P.O. Box 309, 27 Ryan Road, Shelby, Ohio 44875.

NOTE 19 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association 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, 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. 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 performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 20 - CONTINGENT LIABILITIES

A. GRANTS

The School District receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2003.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

B. LITIGATION

The School District is involved in no material litigation as either plaintiff or defendant.

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

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Shelby City School District
25 High School Avenue
PO Box 31
Shelby, OH 44875

We have audited the financial statements of the Shelby City School District (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 1, 2004. As discussed in Note 3, during the fiscal year ended June 30, 2003, the District adopted Governmental Accounting Standards Board Statements No. 34, No. 37, No. 38 and Interpretation No. 6. 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-1 and 2003-2. We also noted certain instances of noncompliance that we have reported to management of the District in a separate letter dated March 1, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order 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 operations that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reported that we have reported to Management of the District in a separate letter dated March 1, 2004.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'G B Fink', written in a cursive style.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

March 1, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Education
Shelby City School District
25 High School Avenue
PO Box 31
Shelby, OH 44875

Compliance

We have audited the compliance of the Shelby City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Shelby City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.


REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

March 1, 2004

Shelby City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.553	044776-05PU-2002	\$1,182	\$1,182
National School Lunch Program	10.553	044776-05PU-2003	4,337	4,337
Total National School Lunch Program			5,519	5,519
Child Nutrition Cluster:				
National School Lunch Program	10.555	044776-LLP4-2002	48,771	48,771
National School Lunch Program	10.555	044776-LLP4-2003	141,656	141,656
Total National School Lunch Program			190,427	190,427
Special Milk Program for Child	10.556	044776-02PU-2002	853	853
Special Milk Program for Child	10.556	044776-02PU-2003	2,463	2,463
Total Special Milk Program for Child			3,316	3,316
Food Distribution	10.550		121,165	121,165
Total U.S. Department of Agriculture - Child Nutrition Cluster			320,427	320,427
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Innovative Education Program	84.298	044776-C2S1-2001	10,458	0
Innovative Education Program	84.298	044776C2S1-2003	13,656	2,573
Total Innovative Education Program			24,114	2,573
Title I Grants to Local Educational Agencies	84.010	044776-C1S1-2002	171,375	2,381
Title I Grants to Local Educational Agencies	84.010	044776-C1S1-2003	219,445	249,336
Total Title I			390,820	251,717
Safe and Drug-Free Schools	84.186	044776-DRS1-2001	0	1,330
Safe and Drug-Free Schools	84.186	044776-DRS1-2002	0	1,713
Safe and Drug-Free Schools	84.186	044776-DRS1-2003	13,456	0
Total Safe and Drug-Free Schools and Communities			13,456	3,043
Class Size Reduction	84.340	044776-CRS1-2002	0	5
Class Size Reduction	84.340	044776-CRS1-2001	31,898	38,047
Total Class Size Reduction			31,898	38,052
Special Education Cluster:				
Special Education-6BS3-2002P	84.027	044776-6BS3-2002-P	103,630	149,298
Special Education-6BSD-2003P	84.027	044776-6BSD-2003-P	9,000	9,000
Special Education-6BSF-2002P	84.027	044776-6BSF-2002-P	117,649	13,091
Special Education-6BSF-2003P	84.027	044776-6BSF-2003-P	221,771	71,229
Total Special Education Cluster			452,050	242,618
Eisenhower Professional Development State Grants	84.281	044776-MSS1-2001	876	0
Total Eisenhower Professional Development State Grants			876	0
Improving Teacher Quality State Grants	84.367	044776-TRS1-2003	90,926	14,684
Technology Literacy Program	84.318	044776-TJS1-2003	6,009	478
School Renovation Grants	84.352	044776-ATS2-2002	10,424	10,424
Comprehensive School Reform	84.332	044776-RFS2-2001	9,585	4,306
Comprehensive School Reform	84.332	044776-RFS1-2000	0	8,522
Comprehensive School Reform	84.332	044776-RFS1-1999	0	504
Total Comprehensive School Reform			9,585	13,332
Total U.S. Department of Education			1,030,158	576,921
Total Federal Assistance			\$1,350,585	\$897,348

The notes to this Schedule are an integral part of this Schedule.

SHELBY CITY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

SHELBY CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the financial statement level?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

SHELBY CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

**FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

(d)(1)(vii)	Major Programs:	Special Education Cluster, CFDA #84.027 and Title I Grants to Local Educational Agencies, CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

2003-1

Section 5705.40, Revised Code, allows any appropriation measure to be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

Appropriations were adjusted throughout the year, however, these adjustments were not authorized by the Board until year-end.

2003-2

Section 5705.41(B), Revised Code, states that no subdivision is to expend money unless it has been appropriated.

The following funds had expenditures plus encumbrances exceeding authorized appropriations:

Other Grants Fund	\$410,865
IVDL	\$ 10,535
Student Activities	\$132,411

3. FINDINGS FOR FEDERAL AWARDS

None

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-1	Ohio Revised Code Section 5705.41(B), several funds had expenditures and encumbrances which exceeded appropriations.	No	Not corrected. Reissued as finding number 2003-2
2002-2	Ohio Revised Code Section 5705.40, appropriation amendments not passed at same level of control as the annual appropriation.	Yes	Corrected
2002-3	Title I Grants to Local Education Agencies Final Expenditure Reports no submitted timely.	Yes	Corrected



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SHELBY CITY SCHOOL DISTRICT

RICHLAND 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
JUNE 17, 2004**