



**Auditor of State
Betty Montgomery**

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Sidney City School District
Shelby County
750 S. Fourth Street
Sidney, Ohio 45365

To the Members of the Board:

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 Sidney City School District, Shelby County, (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sidney City School District, Shelby County, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The schedule of federal awards expenditures provides additional information and is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 29, 2005

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Sidney City School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

Key highlights for fiscal year 2004 are as follows:

The School completed its second year of a preschool program. The program was totally funded by a donation to the School District. The purpose of the program is to prepare students for entering into kindergarten. This program is for students who do not qualify for Head Start and are financially unable to pay for private preschool. Student enrollment is limited to sixty students due to limited space and available funding. The program had sixty students complete their second preschool year in fiscal year 2004. Students are provided busing to and from school.

The English Language Proficiency program was again partially funded with federal grants. This program had been offered in the School District for over ten years with funding coming from the General Fund. The purpose of this program is to assist students that need help in learning English as a second language. Most of the students in the program are Japanese.

Middle school students began their studies in their new building in January 2004. The building can house approximately nine hundred fifty students. Renovations were completed at the high school. Construction of a new administration building began in fiscal year 2004 and was completed in November 2004. The School District issued certificate of participation notes, in the amount of \$1,700,000, for this construction.

The majority of net assets in the business-type activities are the result of contributions of capital assets from governmental-type activities. The deficit in unrestricted net assets continued to increase in fiscal year 2004. The Board of Education increased the lunch prices for fiscal year 2004 to help offset the costs of the lunch program rather than reduce the meal alternatives provided to the students and faculty. These increased prices did not cover the costs of the program. Further study of the lunchroom operation will continue in fiscal year 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Sidney City School District's financial position.

The statement of net assets and the statement of activities provide information about the activities of the School District as a whole, presenting both an aggregate and a longer-term view of the School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the School District's most significant funds individually and the School District's non-major funds in a single column. The School District's major funds are the General Fund, Bond Retirement debt service fund, and Building capital projects fund.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors can include changes in the School District's property tax base and the condition of the School District's capital assets. These factors must be considered when assessing the overall health of the School District.

In the statement of net assets and the statement of activities, the School District is divided into two distinct kinds of activities:

Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, noninstructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Business-Type Activity - This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The Food Service enterprise fund is reported as a business-type activity.

REPORTING THE SHOOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the School District's major funds. The School District's major governmental funds are the General Fund, Bond Retirement debt service fund, and Building capital projects fund. While the School District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's operations.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Enterprise Fund - The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$33,479,705	\$42,661,009	\$117,282	\$96,516	\$33,596,987	\$42,757,525
Capital Assets, Net	30,376,330	21,966,957	2,388,760	1,606,026	32,765,090	23,572,983
Total Assets	<u>63,856,035</u>	<u>64,627,966</u>	<u>2,506,042</u>	<u>1,702,542</u>	<u>66,362,077</u>	<u>66,330,508</u>
Liabilities						
Current and Other Liabilities	26,239,481	24,723,260	178,685	170,181	26,418,166	24,893,441
Long-Term Liabilities	24,440,573	24,897,642	3,262	3,144	24,443,835	24,900,786
Total Liabilities	<u>50,680,054</u>	<u>49,620,902</u>	<u>181,947</u>	<u>173,325</u>	<u>50,862,001</u>	<u>49,794,227</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	6,349,336	5,676,723	2,388,760	1,606,026	8,738,096	7,282,749
Restricted	2,868,456	2,906,373	0	0	2,868,456	2,906,373
Unrestricted (Deficit)	3,958,189	6,423,968	(64,665)	(76,809)	3,893,524	6,347,159
Total Net Assets	<u>\$13,175,981</u>	<u>\$15,007,064</u>	<u>\$2,324,095</u>	<u>\$1,529,217</u>	<u>\$15,500,076</u>	<u>\$16,536,281</u>

Total assets increased slightly, in the amount of \$31,569. Although there was a significant decrease in current and other assets, the decrease was offset by the completion of installing new windows in the high school, constructing a new addition to the high school, constructing a new middle school, constructing a new administration building, and constructing a new football stadium.

The material change in current and other liabilities was from the issuance of \$1,700,000 in certificates of participation notes for the construction of a new administration building.

The net change of governmental activities, invested in capital assets, net of related debt, in the amount of \$672,613, was from additional capital assets purchased and constructed with the interest earned on the debt proceeds. Restricted net assets did not change significantly. Total unrestricted net assets decreased by \$2,453,635. A portion of the debt proceeds issued in fiscal year 2001 was used to construct and purchase capital assets for business-type activities. All of the debt proceeds are to be repaid with a voted bond levy through fiscal year 2028. Therefore, outstanding general obligation bonds at June 30, 2004 in the amount of \$1,952,751 are attributable to the capital assets donated to the Food Service enterprise fund and recorded as a reduction against unrestricted net assets for governmental activities.

For business-type activities, the deficit in unrestricted net assets decreased by \$12,144. The costs associated with providing food service to students and faculty continue to increase over and above the revenues generated from providing the service. The Board of Education had authorized that the outstanding advance of \$20,000 from fiscal year 2003 be reclassified as a transfer and authorized an advance of \$21,000 in fiscal year 2004 to alleviate cash deficits while decisions are made on how to alleviate the deficit.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2004 and fiscal year 2003.

**Table 2
Change in Net Assets**

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues						
Charges for Services	\$959,096	\$577,957	\$720,662	\$712,746	\$1,679,758	\$1,290,703
Operating Grants, Contributions, and Interest	3,357,719	4,001,307	649,467	535,878	4,007,186	4,537,185
Capital Grants and Contributions	97,965	230,373	0	0	97,965	230,373
Total Program Revenues	4,414,780	4,809,637	1,370,129	1,248,624	5,784,909	6,058,261
General Revenues						
Property Taxes	16,156,531	15,912,025	0	0	16,156,531	15,912,025
Payment in Lieu of Taxes	224,728	163,538	0	0	224,728	163,538
Grants and Entitlements not Restricted to Specific Programs	10,860,534	10,170,802	0	0	10,860,534	10,170,802
Interest	175,354	760,740	0	0	175,354	760,740
Miscellaneous	280,541	180,711	0	0	280,541	180,711
Total General Revenues	27,697,688	27,187,816	0	0	27,697,688	27,187,816
Total Revenues	32,112,468	31,997,453	1,370,129	1,248,624	33,482,597	33,246,077
Transfers	(885,122)	(119,925)	885,122	119,925	0	0
Total Revenues and Transfers	31,227,346	31,877,528	2,255,251	1,368,549	33,482,597	33,246,077
Expenses:						
Instruction:						
Regular	\$15,219,531	\$13,819,464	\$0	\$0	\$15,219,531	\$13,819,464
Special	3,464,260	3,302,432	0	0	3,464,260	3,302,432
Vocational	70,673	52,725	0	0	70,673	52,725
Support Services:						
Pupils	1,752,852	1,575,328	0	0	1,752,852	1,575,328
Instructional Staff	1,999,267	1,760,663	0	0	1,999,267	1,760,663
Board of Education	9,467	12,994	0	0	9,467	12,994
Administration	2,461,442	2,206,971	0	0	2,461,442	2,206,971
Fiscal	738,677	653,629	0	0	738,677	653,629
Business	126,579	108,886	0	0	126,579	108,886
Operation/ Maintenance of Plant	2,889,693	2,554,070	0	0	2,889,693	2,554,070
Pupil Transportation	1,435,597	1,141,813	0	0	1,435,597	1,141,813
Central	486,993	523,041	0	0	486,993	523,041
Noninstructional Services	570,981	670,890	0	0	570,981	670,890
Extracurricular Activities	625,718	601,402	0	0	625,718	601,402
Intergovernmental	10,104	45,367	0	0	10,104	45,367
Interest and Fiscal Charges	1,196,595	1,274,340	0	0	1,196,595	1,274,340
Food Service	0	0	1,460,373	1,337,638	1,460,373	1,337,638
Total Expenses	33,058,429	30,304,015	1,460,373	1,337,638	34,518,802	31,641,653
Increase (Decrease) in Net	(\$1,831,083)	\$1,573,513	\$794,878	\$30,911	(\$1,036,205)	\$1,604,424

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

For governmental activities, program revenues decreased by 8 percent and were only 14 percent of total revenues in fiscal year 2004. Increases in charges for services were primarily due to tuition and fees received from students and special education agreements with other school districts. Operating grants, contributions, and interest decreased from the Helping One Student to Succeed (HOSTS) program no longer being funded. Capital grants and contributions decreased because fiscal year 2003 had included additional grants received for the purchase of special needs buses. Grants and entitlements not restricted to specific programs increased resulting from additional Foundation revenues received during fiscal year 2004. Interest continued to decline from the low interest rates along with a decrease in available cash to invest.

Total expenses for governmental activities increased by 9 percent due principally from wage and benefit increases required by the union agreements. The major program expenses for regular instruction continued to account for 46 percent of all governmental expenses. Regular instruction increased from wage and benefit increases and open enrollment.

For business-type activities, program revenues increased by 9 percent; whereas, total expenses also increased by 9 percent in fiscal year 2004. The increase in net assets resulted from an operating transfer of \$45,000 and \$840,122 in contributions of capital assets from governmental activities during fiscal year 2004. The increase in fiscal year 2003 had included a \$100,000 operating transfer and a \$19,925 contribution of capital assets from governmental activities. However, for both fiscal years revenues prior to transfers did not provide sufficient income to operate the food service program.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Instruction:				
Regular	\$15,219,531	\$13,819,464	\$14,124,691	\$13,008,862
Special	3,464,260	3,302,432	1,098,273	1,087,161
Vocational	70,673	52,725	49,862	24,045
Support Services:				
Pupils	1,752,852	1,575,328	1,702,987	1,428,644
Instructional Staff	1,999,267	1,760,663	1,999,267	1,760,663
Board of Education	9,467	12,994	9,467	12,994
Administration	2,461,442	2,206,971	2,461,442	2,206,971
Fiscal	738,677	653,629	738,677	653,629
Business	126,579	108,886	126,579	108,886
Operation and Maintenance of Plant	2,889,693	2,554,070	2,889,693	2,554,070
Pupil Transportation	1,435,597	1,141,813	1,266,523	221,407
Central	486,993	523,041	459,993	491,541
Noninstructional Services	570,981	670,890	66,253	166,758
Extracurricular Activities	625,718	601,402	443,243	449,040
Intergovernmental	10,104	45,367	10,104	45,367
Interest and Fiscal Charges	1,196,595	1,274,340	1,196,595	1,274,340
Total Expenses	<u>\$33,058,429</u>	<u>\$30,304,015</u>	<u>\$28,643,649</u>	<u>\$25,494,378</u>

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Total costs of services increased, in the amount of \$2,754,414, compared to the increase in net cost of services, in the amount of \$3,149,271. The School District reflected a decrease in total program revenues principally in transportation expenses. Program revenues for all other functions stayed relatively the same when comparing total cost of services against what was received as revenues for those programs.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's major governmental funds are the General Fund, Bond Retirement debt service fund, and Building capital projects fund. Governmental fund revenues increased from additional property tax revenues received in the Bond Retirement debt service fund and Foundation revenues received in the General Fund. Governmental fund expenditures increased from the continuing construction and improvements to buildings and the payment of debt and related expenditures. The remaining increase in governmental fund expenditures is attributed to increases in salaries and related fringe benefits.

General Fund revenues only increased slightly from fiscal year 2003; whereas, expenditures increased by 9 percent. The net change in the general fund balance for fiscal year 2003 was \$726,875 compared to (\$1,559,988) for fiscal year 2004. During fiscal year 2004, the School District increased the amount of transfers to other governmental funds for payment of severance, retirement incentives, and debt service requirements not funded by property taxes. Revenues in the General Fund will not be able to cover the School District's future operating costs should current trends continue.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The only business-type activity of the School District is the food service operation. This program had revenues, capital contributions from governmental activities, and transfers of \$2,255,251 and expenses of \$1,460,373 for fiscal year 2004. Sales increased slightly in fiscal year 2004 from providing a greater selection of food for lunch and increases in lunch charges; however, the costs of providing this selection are greater than the revenues generated.

BUDGETARY HIGHLIGHTS

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute. The School District's most significant budgeted fund is the General Fund. During fiscal year 2004, the School District amended its General Fund budget as needed. The School District uses a modified form of site-based budgeting. The budgeting systems are designed to tightly control total site budgets, but provide flexibility for site management.

For the General Fund, final budgeted revenues increased insignificantly from the School District's original estimates.

The original appropriations were increased from fiscal year 2003 based on salary increases according to union negotiations, increases in medical insurance premiums, and open enrollment costs.

The final appropriations increased slightly from the original budget, although total expenditures of \$27,799,532 remained below the total original appropriations. The major difference comes from conservative spending patterns as compared to budgeted amounts at the site level.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The primary increase in capital assets for governmental activities is the result of construction at the new middle school, the new administration building, and the football stadium, along with the construction of the addition to the high school. Business-type activity capital assets increased from the contribution of buildings and equipment from governmental activities. For further information regarding the School District's capital assets, refer to Note 10 the basic financial statements.

Debt - The voters of the School District approved, at an election held on November 7, 2000, the issuance of bonds and a 3.70 mill levy to pay the principal and interest thereon. The School District has two outstanding general obligation bond issues, in the amount of \$18,995,512 and \$3,915,000, respectively. These bond issues were for the construction of a new middle school and renovations at the high school. The School District also has two outstanding bond anticipation notes, in the amount of \$928,000 and \$1,999,350, respectively. The \$995,000 issue was for energy conservation projects in four of the School District's instructional buildings. The \$1,999,350 issue was for the renovations at the high school. In fiscal year 2004, the School District issued certificate of participation notes, in the amount of \$1,700,000, for the construction of an administration building near the middle and high school buildings.

The School District has an asbestos removal loan with the U. S. Environmental Protection Agency, in the amount of \$35,299. The annual loan payments are \$14,120, and the loan will be fully paid in fiscal year 2007.

In addition to the debt outlined above, the School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 18 the basic financial statements.

CURRENT ISSUES

On October 21, 2003, the School District issued \$1,700,000 in certificates of participation notes to construct a Board of Education facility on land that has been leased to The Community Foundation of Sidney and Shelby County. The facility will be leased to the School District over a thirty-year period and is renewable on an annual basis. The facility was completed by November 2004. It houses all central administrative staff, as well as meeting facilities for the Board of Education, and provides centralized data and communications facilities for the whole School District.

Increases in the budget for fiscal year 2005 were necessary to prepare for the additional costs of the middle school facility being operated for a complete year. Additional staff, equipment, and operating costs were the main factors in budgeting additional funds. Other factors such as staff salary raises, increased costs for health insurance, and utility costs are also factors in the budget increase. The budget increase is a little over \$2.7 million.

The donations for the preschool program have been extended through fiscal year 2006.

The State has reduced its support for fiscal year 2005 by \$229,716 when compared to fiscal year 2004, and the State Legislature has accelerated the implementation of property tax cuts for tangible personal property for business inventory. When fully implemented, the tax reduction for the business inventory portion of tangible personal property will reduce the tax base for the School District by \$52.5 million.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Gary Benesh, Chief Financial Officer, Sidney City School District, 750 S. Fourth Street, Sidney, Ohio 45365.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$14,535,611	\$401	\$14,536,012
Cash and Cash Equivalents:			
In Segregated Accounts	1,006		1,006
With Escrow Agent	185,079		185,079
Investments	982,760		982,760
Investments in Segregated Accounts	7,945		7,945
Accounts Receivable	126,951		126,951
Accrued Interest Receivable	9,500		9,500
Internal Balances	20,498	(20,498)	
Intergovernmental Receivable	688,070	75,524	763,594
Prepaid Items	195,424	14,440	209,864
Inventory Held for Resale		43,747	43,747
Materials and Supplies Inventory	40,237	3,668	43,905
Property Taxes Receivable	16,498,123		16,498,123
Unamortized Issuance Costs	188,501		188,501
Nondepreciable Capital Assets	1,047,515		1,047,515
Depreciable Capital Assets, Net	29,328,815	2,388,760	31,717,575
Total Assets	<u>63,856,035</u>	<u>2,506,042</u>	<u>66,362,077</u>
Liabilities:			
Accounts Payable	128,747	585	129,332
Contracts Payable	985,563		985,563
Accrued Wages and Benefits Payable	3,230,750	121,215	3,351,965
Intergovernmental Payable	1,023,656	56,885	1,080,541
Retainage Payable	281,850		281,850
Accrued Interest Payable	157,671		157,671
Notes Payable	4,627,350		4,627,350
Deferred Revenue	15,803,894		15,803,894
Long-Term Liabilities:			
Due Within One Year	646,331	3,072	649,403
Due in More Than One Year	23,794,242	190	23,794,432
Total Liabilities	<u>50,680,054</u>	<u>181,947</u>	<u>50,862,001</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	6,349,336	2,388,760	8,738,096
Restricted For:			
Debt Service	663,372		663,372
Capital Projects	1,790,396		1,790,396
Other Purposes	414,688		414,688
Unrestricted (Deficit)	3,958,189	(64,665)	3,893,524
Total Net Assets	<u>\$13,175,981</u>	<u>\$2,324,095</u>	<u>\$15,500,076</u>

See accompanying notes to basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
Governmental Activities:				
Instruction:				
Regular	\$15,219,531	\$681,742	\$413,098	
Special	3,464,260	84,683	2,281,304	
Vocational	70,673	6,520	14,291	
Support Services:				
Pupils	1,752,852	5,786	44,079	
Instructional Staff	1,999,267			
Board of Education	9,467			
Administration	2,461,442			
Fiscal	738,677			
Business	126,579			
Operation and Maintenance of Plant	2,889,693			
Pupil Transportation	1,435,597		98,109	\$70,965
Central	486,993			27,000
Noninstructional Services	570,981		504,728	
Extracurricular Activities	625,718	180,365	2,110	
Intergovernmental	10,104			
Interest and Fiscal Charges	1,196,595			
Total Governmental Activities	33,058,429	959,096	3,357,719	97,965
Business-Type Activity				
Food Service	1,460,373	720,662	649,467	
Totals	\$34,518,802	\$1,679,758	\$4,007,186	\$97,965

General Revenues:

Property Taxes Levied for:

General Purposes

Debt Service

Permanent Improvements

Payment in Lieu of Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

**Net (Expense) Revenue
and Change in Net Assets**

<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
(\$14,124,691)		(\$14,124,691)
(1,098,273)		(1,098,273)
(49,862)		(49,862)
(1,702,987)		(1,702,987)
(1,999,267)		(1,999,267)
(9,467)		(9,467)
(2,461,442)		(2,461,442)
(738,677)		(738,677)
(126,579)		(126,579)
(2,889,693)		(2,889,693)
(1,266,523)		(1,266,523)
(459,993)		(459,993)
(66,253)		(66,253)
(443,243)		(443,243)
(10,104)		(10,104)
<u>(1,196,595)</u>		<u>(1,196,595)</u>
<u>(28,643,649)</u>		<u>(28,643,649)</u>
	<u>(\$90,244)</u>	<u>(90,244)</u>
<u>(28,643,649)</u>	<u>(90,244)</u>	<u>(28,733,893)</u>
14,135,506		14,135,506
1,738,193		1,738,193
282,832		282,832
224,728		224,728
10,860,534		10,860,534
175,354		175,354
280,541		280,541
<u>27,697,688</u>		<u>27,697,688</u>
<u>(885,122)</u>	<u>885,122</u>	<u>27,697,688</u>
<u>26,812,566</u>	<u>885,122</u>	<u>27,697,688</u>
(1,831,083)	794,878	(1,036,205)
15,007,064	1,529,217	16,536,281
<u>\$13,175,981</u>	<u>\$2,324,095</u>	<u>\$15,500,076</u>

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$10,182,142	\$1,142,617	\$730,765	\$2,480,087	\$14,535,611
Cash and Cash Equivalents in Segregated Accounts				1,006	1,006
Investments			982,760		982,760
Investments in Segregated Accounts				7,945	7,945
Accounts Receivable	120,739			6,212	126,951
Accrued Interest Receivable			9,411	89	9,500
Interfund Receivable	29,700				29,700
Intergovernmental Receivable	306,504			381,566	688,070
Prepaid Items	174,652			20,772	195,424
Materials and Supplies Inventory	40,237				40,237
Restricted Assets:					
Cash and Cash Equivalents with Escrow Agent			185,079		185,079
Property Taxes Receivable	14,421,902	1,781,143		295,078	16,498,123
Total Assets	<u>25,275,876</u>	<u>2,923,760</u>	<u>1,908,015</u>	<u>3,192,755</u>	<u>33,300,406</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts Payable	112,762			15,985	128,747
Contracts Payable			770,832	214,731	985,563
Accrued Wages and Benefits Payable	2,919,432			311,318	3,230,750
Intergovernmental Payable	638,808			44,575	683,383
Interfund Payable				9,202	9,202
Retainage Payable			68,750	28,021	96,771
Liabilities Payable from Restricted Assets:					
Retainage Payable			185,079		185,079
Deferred Revenue	14,221,699	1,709,546		398,189	16,329,434
Total Liabilities	<u>17,892,701</u>	<u>1,709,546</u>	<u>1,024,661</u>	<u>1,022,021</u>	<u>21,648,929</u>
Fund Balances:					
Reserved for Property Taxes	498,672	71,597		9,898	580,167
Reserved for Encumbrances	306,953		104,843	1,576,664	1,988,460
Unreserved, Designated for Termination Benefits				65,001	65,001
Unreserved, Reported in:					
General Fund	6,577,550				6,577,550
Special Revenue Funds				256,778	256,778
Debt Service Fund		1,142,617			1,142,617
Capital Projects Funds			778,511	262,393	1,040,904
Total Fund Balances	<u>7,383,175</u>	<u>1,214,214</u>	<u>883,354</u>	<u>2,170,734</u>	<u>11,651,477</u>
Total Liabilities and Fund Balances	<u>\$25,275,876</u>	<u>\$2,923,760</u>	<u>\$1,908,015</u>	<u>\$3,192,755</u>	<u>\$33,300,406</u>

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total Governmental Fund Balances		\$11,651,477
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		30,376,330
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	\$111,113	
Intergovernmental Receivable	300,365	
Property Taxes Receivable	114,062	
		525,540
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		188,501
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.		(340,273)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(157,671)	
Asbestos Removal Loan Payable	(35,299)	
Notes Payable	(4,627,350)	
General Obligation Bonds Payable	(22,910,512)	
Compensated Absences Payable	(1,494,762)	
		(29,225,594)
Net Assets of Governmental Activities		\$13,175,981

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues:					
Property Taxes	\$14,122,292	\$1,736,488		\$282,462	\$16,141,242
Payment in Lieu of Taxes	224,728				224,728
Intergovernmental	11,800,137	170,783		2,428,843	14,399,763
Interest	148,291		\$27,304	8,537	184,132
Tuition and Fees	727,320				727,320
Extracurricular Activities				186,218	186,218
Gifts and Donations				180,347	180,347
Miscellaneous	159,685	11,058		112,792	283,535
Total Revenues	<u>27,182,453</u>	<u>1,918,329</u>	<u>27,304</u>	<u>3,199,199</u>	<u>32,327,285</u>
Expenditures:					
Current:					
Instruction:					
Regular	14,145,140			658,930	14,804,070
Special	2,692,479			786,748	3,479,227
Vocational	68,941				68,941
Support Services:					
Pupils	1,550,154			160,293	1,710,447
Instructional Staff	1,313,320			654,472	1,967,792
Board of Education	9,467				9,467
Administration	2,281,664			121,606	2,403,270
Fiscal	637,433	48,370	2,104	14,416	702,323
Business	126,387				126,387
Operation and Maintenance of Plant	2,671,669			77,500	2,749,169
Pupil Transportation	1,331,290			1,781	1,333,071
Central	388,897			74,136	463,033
Noninstructional Services					
Extracurricular Activities	419,739		11	181,128	600,878
Capital Outlay	2,950		8,740,392	1,355,199	10,098,541
Intergovernmental				10,104	10,104
Debt Service:					
Principal Retirement		3,483,466			3,483,466
Interest and Fiscal Charges		1,202,517			1,202,517
Total Expenditures	<u>27,639,530</u>	<u>4,734,353</u>	<u>8,742,507</u>	<u>4,619,816</u>	<u>45,736,206</u>
Excess of Revenues					
Under Expenditures	(457,077)	(2,816,024)	(8,715,203)	(1,420,617)	(13,408,921)
Other Financing Sources (Uses):					
Bond Anticipation Notes Issued		2,927,350			2,927,350
Certificate of Participation Notes Issued				1,700,000	1,700,000
Transfers In		203,331	4,260	850,320	1,057,911
Transfers Out	(1,102,911)				(1,102,911)
Total Other Financing Sources (Uses)	<u>(1,102,911)</u>	<u>3,130,681</u>	<u>4,260</u>	<u>2,550,320</u>	<u>4,582,350</u>
Net Change in Fund Balances	<u>(1,559,988)</u>	<u>314,657</u>	<u>(8,710,943)</u>	<u>1,129,703</u>	<u>(8,826,571)</u>
Fund Balances at Beginning of Year	8,943,163	899,557	9,594,297	1,041,031	20,478,048
Fund Balances at End of Year	<u>\$7,383,175</u>	<u>\$1,214,214</u>	<u>\$883,354</u>	<u>\$2,170,734</u>	<u>\$11,651,477</u>

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds (\$8,826,571)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on 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 exceeded depreciation in the current fiscal year:

Capital Outlay - Depreciable Capital Assets	\$8,076,660	
Capital Outlay - Nondepreciable Capital Assets	840,210	
Depreciation	<u>(476,416)</u>	8,440,454

The book value of capital assets removed from the capital asset account on the statement of net assets results in a loss on disposal of capital assets on the statement of activities. (31,081)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	15,289	
Intergovernmental	(123,932)	
Interest	(6,616)	
Tuition and Fees	45,625	
Extracurricular Activities	(67)	
Gifts and Donations	(142,122)	
Miscellaneous	<u>32,108</u>	(179,715)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 3,483,466

Note proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets:
Notes Payable (4,627,350)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities.

Annual Accretion	(1,770)	
Amortization of Premium	18,332	
Amortization of Discount	(4,732)	
Accrued Interest Payable	<u>(2,181)</u>	9,649

Issuance costs are reported as an expenditure when paid in the governmental funds, but is accrued on outstanding debt on the statement of net assets.
Amortization of Issuance Costs (3,727)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(52,331)	
Compensated Absences Payable	<u>(43,877)</u>	<u>(96,208)</u>

Change in Net Assets of Governmental Activities \$ (1,831,083)

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$14,024,906	\$14,024,906	\$14,231,611	\$206,705
Payment in Lieu of Taxes	100,000	100,000	224,728	124,728
Intergovernmental	11,054,094	11,054,094	11,728,576	674,482
Interest	145,548	145,548	148,291	2,743
Tuition and Fees	627,000	627,000	684,909	57,909
Miscellaneous	24,000	49,000	166,287	117,287
Total Revenues	<u>25,975,548</u>	<u>26,000,548</u>	<u>27,184,402</u>	<u>1,183,854</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,806,730	12,822,707	12,313,571	509,136
Special	3,091,076	3,105,315	2,670,315	435,000
Vocational	94,831	94,831	68,930	25,901
Other	1,958,301	1,958,301	1,880,749	77,552
Support Services:				
Pupils	1,702,611	1,706,111	1,544,614	161,497
Instructional Staff	1,343,019	1,343,421	1,333,420	10,001
Board of Education	15,557	15,557	9,582	5,975
Administration	2,586,536	2,552,871	2,275,695	277,176
Fiscal	687,871	723,420	638,339	85,081
Business	146,900	146,900	131,294	15,606
Operation and Maintenance of Plant	2,924,619	2,924,619	2,796,031	128,588
Pupil Transportation	1,354,911	1,354,911	1,324,396	30,515
Central	692,513	687,757	382,138	305,619
Extracurricular Activities	428,928	428,928	427,508	1,420
Capital Outlay	3,000	3,000	2,950	50
Total Expenditures	<u>29,837,403</u>	<u>29,868,649</u>	<u>27,799,532</u>	<u>2,069,117</u>
Excess of Revenues Under Expenditures	(3,861,855)	(3,868,101)	(615,130)	3,252,971
Other Financing Sources (Uses):				
Advances In			20,000	20,000
Advances Out			(29,700)	(29,700)
Transfers Out	(750,000)	(1,084,531)	(1,102,911)	(18,380)
Total Other Financing Sources (Uses)	<u>(750,000)</u>	<u>(1,084,531)</u>	<u>(1,112,611)</u>	<u>(28,080)</u>
Changes in Fund Balance	(4,611,855)	(4,952,632)	(1,727,741)	3,224,891
Fund Balance at Beginning of Year	10,849,531	10,849,531	10,849,531	
Prior Year Encumbrances Appropriated	521,679	521,679	521,679	
Fund Balance at End of Year	<u>\$6,759,355</u>	<u>\$6,418,578</u>	<u>\$9,643,469</u>	<u>\$3,224,891</u>

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FUND NET ASSETS
ENTERPRISE FUND
JUNE 30, 2004**

	<u>Food Service</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$401
Intergovernmental Receivable	75,524
Interfund Receivable	502
Prepaid Items	14,440
Inventory Held for Resale	43,747
Materials and Supplies Inventory	3,668
Total Current Assets	<u>138,282</u>
Non-Current Assets:	
Depreciable Capital Assets, Net	<u>2,388,760</u>
Total Assets	<u>2,527,042</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	585
Accrued Wages and Benefits Payable	121,215
Compensated Absences Payable	3,072
Interfund Payable	21,000
Intergovernmental Payable	56,885
Total Current Liabilities	<u>202,757</u>
Long-Term Liabilities:	
Compensated Absences Payable	<u>190</u>
Total Liabilities	<u>202,947</u>
Net Assets:	
Invested in Capital Assets	2,388,760
Unrestricted (Deficit)	<u>(64,665)</u>
Total Net Assets	<u><u>\$2,324,095</u></u>

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Food Service
Operating Revenues:	
Sales	\$720,662
Operating Expenses:	
Salaries	561,066
Fringe Benefits	234,967
Purchased Services	17,529
Materials and Supplies	54,254
Cost of Sales	535,169
Depreciation	57,259
Total Operating Expenses	1,460,244
Operating Loss	(739,582)
Non-Operating Revenues (Expenses):	
Federal Donated Commodities	77,471
Operating Grants	571,868
Loss on Disposal of Capital Asset	(129)
Interest Revenue	128
Total Non-Operating Revenues (Expenses)	649,338
Loss Before Contributions and Transfers	(90,244)
Capital Contributions	840,122
Transfers In	45,000
Change in Net Assets	794,878
Net Assets at Beginning of Year	1,529,217
Net Assets at End of Year	\$2,324,095

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Food Service
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flow from Operating Activities:	
Cash Received from Customers	\$716,252
Cash Received from Other Revenues	225
Cash Payments for Salaries	(519,915)
Cash Payments for Fringe Benefits	(270,828)
Cash Payments for Goods and Services	(551,852)
Net Cash Used for Operating Activities	(626,118)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants	564,229
Cash Received from Advances In	21,000
Cash Payments for Advances Out	(20,000)
Cash Received from Transfers In	45,000
Net Cash Provided by Noncapital Financing Activities	610,229
Cash Flows from Investing Activities:	
Cash Received from Interest	128
Net Decrease in Cash and Cash Equivalents	(15,761)
Cash and Cash Equivalents at Beginning of Year	16,162
Cash and Cash Equivalents at End of Year	\$401
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(\$739,582)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	57,259
Donated Commodities Received During Year	77,471
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	1,640
Increase in Intergovernmental Receivable	(3,926)
Increase in Interfund Receivable	(502)
Increase in Prepaid Items	(3,093)
Increase in Inventory Held for Resale	(24,201)
Decrease in Materials and Supplies Inventory	194
Decrease in Accounts Payable	239
Increase in Accrued Wages and Benefits Payable	7,194
Increase in Intergovernmental Payable	1,071
Decrease in Compensated Absences Payable	118
Net Cash Used for Operating Activities	(\$626,118)

Non-Cash Transactions

During fiscal year 2004, the School District's governmental funds constructed a new cafeteria within the middle school and purchased necessary equipment, in the amount of \$549,906 and \$290,216, respectively, and donated them to the Food Service enterprise fund.

During fiscal year 2004, the Food Service enterprise fund received donated commodities, in the amount of \$77,471.

During fiscal year 2004, the Board authorized the conversion of an advance of \$20,000 into a permanent transfer. Therefore, the food service fund will not have to repay the advance.

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$121,676	\$55,928
Cash and Cash Equivalents:		
In Segregated Accounts	21,940	
With Fiscal Agent	13,176	
Investments:		
In Segregated Accounts	129,306	
With Fiscal Agent	162,490	
Accrued Interest Receivable	786	
Total Assets	449,374	55,928
Liabilities:		
Undistributed Assets		32,111
Due to Students		23,817
Total Liabilities		\$55,928
Net Assets:		
Endowments	223,297	
Held in Trust for Scholarships	226,077	
Total Net Assets	\$449,374	

See accompanying notes to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$36,638
Gifts and Donations	496,188
Total Additions	<u>532,826</u>
Deductions:	
Noninstructional Services	<u>502,484</u>
Change in Net Assets	30,342
Net Assets Beginning of Year	<u>419,032</u>
Net Assets End of Year	<u><u>\$449,374</u></u>

See accompanying notes to the basic financial statements.

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**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Sidney City School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District is the 99th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred ninety-six classified employees, two hundred sixty-two certified teaching personnel, and twenty-five administrative employees who provide services to 4,072 students and other community members. The School District currently operates eleven instructional/support buildings.

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements 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 Sidney City School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which 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; or (2) 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. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

The Sidney City School Foundation, Inc. is organized as a not-for-profit corporation and operated exclusively for the benefit of the School District. The Foundation receives and administers donations for educational purposes. The Foundation is governed by a five member board of trustees who are the same individuals that serve as members of the Board of Education. The Foundation is a blended component unit and the financial statements of the Foundation for the year ended December 31, 2003, are included as other governmental funds and private purpose trust fiduciary funds in the School District's basic financial statements.

Within the School District's boundaries, Holy Angels Elementary and Lehman High School are operated through the Cincinnati Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is included as a nonmajor governmental fund for financial reporting purposes.

The School District participates in three jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the Upper Valley Joint Vocational School, West Central Ohio Special Education Regional Resource Center, Southwestern Ohio Educational Purchasing Cooperative, Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust, Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan, and the Amos Memorial Public Library. These organizations are presented in Notes 22, 23, and 24 to the basic financial statements.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Sidney City 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 enterprise fund provided they do not conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise fund. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. 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 in nature and those that are considered business-type activities.

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 statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and business-type activity. 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, contributions, and interest that are 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 governmental function or business activity is self-financing or draws from the general revenues of the School District.

2. Fund Financial Statements

During the fiscal 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are reported in three categories: governmental, proprietary, and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses 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 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 School District has three 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Debt Service Fund - The Bond Retirement debt service fund is used to account for property tax revenues and transfers from the General Fund to pay the principal and related interest on the School District's energy conservation notes, school improvement bonds, and asbestos removal loan.

Building Capital Projects Fund - The Building capital projects fund is used to account for debt proceeds and interest for construction of the cafeteria addition at the high school, a new middle school, and the renovation of a portion of the high school for Physics labs and a lecture hall.

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

2. Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Enterprise Fund - The enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services.

Food Service - The Food Service enterprise fund accounts for the financial transactions related to the food service operations of the School District. This fund is the School District's only enterprise fund and it is reported as a major fund.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for the employee's Section 125 plan and various student-managed activities.

C. Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

2. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise fund is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its enterprise fund.

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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; the enterprise fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the 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 or 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

2. Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund and object level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function level in the General Fund, and the function and object level within all other funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The School District has segregated bank accounts for monies held by the Foundation, a blended component unit. These accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" and "Investments in Segregated Accounts". The School District also maintains separate accounts for the accumulated retainage on contracts for construction and renovation of the School District's buildings. The amount held within these accounts is reflected as "Cash and Cash Equivalents with Escrow Agent".

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2004, the School District's investments included non-negotiable certificates of deposit, federal agency securities, stocks, mutual funds, and STAR Ohio. The School District's investments are reported at fair value, except for non-negotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market price or current share price. 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, 2004.

The School District is a participant in an external investment pool maintained by the Shelby County Educational Service Center. Investments are governed by the trust agreement and are limited to conservative growth stocks. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually based on quoted market price. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the investment income that it earns.

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 2004, was \$148,291, which includes \$24,643 assigned from other School District funds.

Investments of the School District's 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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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 in which services are consumed.

H. Inventory

Inventory is stated at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies in the governmental funds and donated and purchased food in the enterprise fund.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the Building capital projects fund represent amounts held by an escrow agent for retainage.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Unamortized Issuance Costs, Premiums, and Discount

On government-wide financial statements, issuance costs, premiums, and bond discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges. Bond premiums are presented as an addition of the face amount of bonds payable. Bond discounts are presented as a reduction of the face amount of bonds payable.

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the current period.

K. Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the enterprise fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise fund are reported in both the business-type activities column on 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 reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. The School District does not have 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 capitalized. Interest incurred during the construction of capital assets by the enterprise fund is also capitalized.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 20 years
Buildings and Building Improvements	10 - 75 years
Furniture, Fixtures, and Equipment	3 - 20 years
Vehicles	15 years

L. Interfund Assets/Liabilities

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after twenty years of service.

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and long-term loans are recognized as liabilities on the fund financial statements when due.

O. 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 balance of any borrowing 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. Net assets restricted for other purposes include resources restricted for music and athletic programs and federal and state grants restricted to expenditure for specified purposes. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Fund Balance Reserves and Designations

The School District reserves those portions of fund balance 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 fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes and encumbrances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. The designation for termination benefits represents monies set aside by the Board of Education for the future payment of those benefits.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the School District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund. Revenues and expenses not meeting this definition are reported as nonoperating.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Capital Contributions

Contributions of capital on the enterprise fund financial statements arise from outside contributions of capital assets, contributions from other funds, or from grants or outside contributions of resources restricted to capital acquisition and construction.

S. Interfund Transactions

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

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 nonoperating revenues/expenses in the enterprise fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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 management and are either unusual in nature or infrequent in occurrence.

U. Estimates

The preparation of 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.

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units*". GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School District's financial statements.

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the Title II A special revenue fund had a deficit fund balance of \$631 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

4. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Compliance

The General Fund had expenditures plus outstanding encumbrances in excess of appropriations for transfers out for the fiscal year ended June 30, 2004, in the amount of \$18,380.

The School District did not properly account for the reclassification of the prior fiscal year advance to an operating transfer in fiscal year 2004.

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Change in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General 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 the GAAP basis are as follows:

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 adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Change in Fund Balance	
GAAP Basis	(\$1,559,988)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	652,748
Accrued FY 2004, Not Yet Received in Cash	(626,520)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(3,299,424)
Accrued FY 2004, Not Yet Paid in Cash	3,670,076
Prepaid Items	(20,961)
Materials and Supplies Inventory	4,701
Advances In	20,000
Advances Out	(29,700)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(538,673)
Budget Basis	<u><u>(\$1,727,741)</u></u>

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

6. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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 monies deposited with the institution.

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

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

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

6. DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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 the 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 \$1,900 in undeposited cash on hand which is included 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 Repurchase Agreements), and Reverse Repurchase Agreements"*.

At fiscal year end, the carrying amount of the School District's deposits was \$14,320,851 and the bank balance was \$14,886,456. Of the bank balance, \$578,732 was covered by federal depository insurance and \$14,307,724 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered 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 for which the securities 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 School District's name. Investments in Shelby County Educational Service Center's investment pool, mutual funds and STAR Ohio, and are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

6. DEPOSITS AND INVESTMENTS (Continued)

	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Federal Home Loan Mortgage Corporation Notes	\$982,760	\$0	\$982,760
Qwest Communications International, Inc.	0	873	873
SBC Communications, Inc.	0	3,545	3,545
Verizon Communications	0	3,999	3,999
	<u>\$982,760</u>	<u>\$8,417</u>	991,177
Investments in Shelby County Educational Service Center's Investment Pool			175,666
STAR Ohio			478,054
Mutual Funds			249,670
Totals			<u>\$1,894,567</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$14,934,817	\$1,282,501
Cash on Hand	(1,900)	0
Investment in Shelby County Educational Service Center's Investment Pool	(13,176)	13,176
Certificates of Deposit	128,834	(128,834)
STAR Ohio	(478,054)	478,054
Mutual Funds	(249,670)	249,670
GASB Statement No. 3	<u>\$14,320,851</u>	<u>\$1,894,567</u>

7. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (rent and student fees), accrued interest, interfund, intergovernmental, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

7. RECEIVABLES (Continued)

	Amount
Governmental Activities	
General Fund	
Tuition and Fees	\$57,936
Excess Costs	193,408
Substitute Reimbursement	7,025
Shelby County Juvenile Court	100
Medicare	47,666
Transportation Reimbursement	209
Teacher Workshop Reimbursement	160
Total General Fund	306,504
Other Governmental Funds	
Auxiliary Services	\$2,439
Summer Intervention	7,319
IDEA B	125,813
English Language Proficiency	6,616
Title I	158,568
Title V	20,949
Handicap Preschool	1,586
Title II A	45,988
Miscellaneous Federal	12,288
Total Other Governmental Funds	381,566
Total Governmental Activities	688,070
Business-Type Activity	
Food Service	
Cafeteria Service	3,926
Breakfast and School Lunch	71,598
Total Food Service	75,524
Total Intergovernmental Receivables	\$763,594

8. 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 property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 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.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

8. PROPERTY TAXES (Continued)

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$498,672 in the General Fund, \$71,597 in the Bond Retirement debt service fund, and \$9,898 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2003, was \$607,991 in the General Fund, \$87,314 in the Bond Retirement debt service fund, and \$11,949 in the Permanent Improvement capital projects fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

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

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

8. PROPERTY TAXES (Continued)

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$264,380,260	51.60%	\$268,697,070	52.18%
Industrial/Commercial	100,301,980	19.58	106,376,730	20.66
Public Utility	17,701,000	3.46	17,251,920	3.35
Tangible Personal	129,939,865	25.36	122,632,041	23.81
Total Assessed Value	<u>\$512,323,105</u>	<u>100.00%</u>	<u>\$514,957,761</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$43.70		\$43.70	

9. PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The payment is received annually either as an agreed upon flat amount per year or based on a percentage of income tax revenue received by the City of Sidney for additional employees employed from the expansion. Most of the agreements are for a ten year period. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental-Type Activities				
Nondepreciable Capital Assets				
Land	\$207,305	\$0	\$0	\$207,305
Construction in Progress	16,616,276	8,315,836	(24,091,902)	840,210
Total Nondepreciable Capital Assets	<u>16,823,581</u>	<u>8,315,836</u>	<u>(24,091,902)</u>	<u>1,047,515</u>
Depreciable Capital Assets				
Land Improvements	224,413	0	0	224,413
Buildings and Building Improvements	4,498,300	24,091,902	(200,412)	28,389,790
Furniture, Fixtures, and Equipment	2,875,209	410,838	(122,036)	3,164,011
Vehicles	1,726,006	190,196	(21,480)	1,894,722
Total Depreciable Capital Assets	<u>9,323,928</u>	<u>24,692,936</u>	<u>(343,928)</u>	<u>33,672,936</u>

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

10. CAPITAL ASSETS (Continued)

Less Accumulated Depreciation				
Land Improvements	(81,529)	(12,420)	0	(93,949)
Buildings and Building Improvements	(1,848,202)	(163,745)	197,727	(1,814,220)
Furniture, Fixtures, and Equipment	(1,656,284)	(188,308)	93,640	(1,750,952)
Vehicles	(594,537)	(111,943)	21,480	(685,000)
Total Accumulated Depreciation	<u>(4,180,552)</u>	<u>(476,416)</u>	<u>312,847</u>	<u>(4,344,121)</u>
Depreciable Capital Assets, Net	<u>5,143,376</u>	<u>24,216,520</u>	<u>(31,081)</u>	<u>29,328,815</u>
Governmental Activities				
Capital Assets, Net	<u>\$21,966,957</u>	<u>\$32,532,356</u>	<u>(\$24,122,983)</u>	<u>\$30,376,330</u>
Business-Type Activity				
Depreciable Capital Assets				
Buildings and Building Improvements	\$1,387,067	\$549,906	(\$9,642)	\$1,927,331
Furniture, Fixtures, and Equipment	545,378	290,216	(17,221)	818,373
Vehicles	15,004	0	0	15,004
Total Depreciable Capital Assets	<u>1,947,449</u>	<u>840,122</u>	<u>(26,863)</u>	<u>2,760,708</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(133,715)	(21,954)	9,513	(146,156)
Furniture, Fixtures, and Equipment	(200,155)	(34,309)	17,221	(217,243)
Vehicles	(7,553)	(996)	0	(8,549)
Total Accumulated Depreciation	<u>(341,423)</u>	<u>(57,259)</u>	<u>26,734</u>	<u>(371,948)</u>
Business-Type Activity				
Capital Assets, Net	<u>\$1,606,026</u>	<u>\$782,863</u>	<u>(\$129)</u>	<u>\$2,388,760</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$266,601
Special	13,201
Vocational	1,745
Support Services:	
Pupils	14,980
Instructional Staff	6,896
Administration	7,803
Fiscal	3,900
Business	192
Operation and Maintenance of Plant	15,130
Pupil Transportation	96,547
Central	8,417
Noninstructional Services	15,748
Extracurricular Activities	25,256
Total Depreciation Expense	<u>\$476,416</u>

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2004, the General Fund had an interfund receivable in the amount of \$29,700; \$8,700 from other governmental funds for providing cash flow resources until the receipt of grant monies and \$21,000 from the Food Service enterprise fund to provide operating resources until sufficient charges for services are received.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

11. INTERFUND ASSETS/LIABILITIES (Continued)

The Food Service enterprise fund had an interfund receivable from other governmental funds, in the amount of \$502, for services provided.

All of the interfund receivables will be repaid within one year.

12. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage:

Midwestern Indemnity Company	
General School District Liability	
Per Occurrence	\$1,000,000
General Aggregate	2,000,000
Buildings and Contents - replacement cost	58,877,969
Earthquake	10,000,000
Musical Instruments	375,653
Computer Equipment	1,570,900
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Mid-American Fire and Casualty Company	
Commercial Umbrella	
General Aggregate	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

The School District participates in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool consisting of seventy school districts. The School District pays monthly premiums to the Trust for employee medical and dental insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan 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 Plan.

The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan.

A participant will then either receive money from or be required to contribute to the "Group Saving Fund". This "group saving" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the Plan.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

13. CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining On Contract</u>
G. E. Modular Space	Modulars at Northwood Elementary	\$138,706
Sidney Electric	Middle School Technology	16,385
Sidney Landscaping	Middle School Landscaping	53,285
Freytag and Associates	High School Addition	12,526
Ferguson Construction	High School Renovation General Contractor	1,966
Slagle Mechanical Construction	High School Renovation Plumbing	21,520
Area Energy and Electric	High School Renovation Electrical	15,340
Farnharm Equipment	High School Renovation Furniture	11,050
Ferguson Construction	Board of Education General Contractor	610,881
Regal Plumbing	Board of Education Plumbing	26,067
Slagle Mechanical Construction	Board of Education Plumbing	113,138
Effective Office Environmental	Board of Education Furniture	65,940
Area Energy	Board of Education Electrical	250,773
Central Fire Protection	Board of Education Fire Alarm	28,553
Area Energy and Electric	Stadium Lighting	36,000
Ferguson Construction	Stadium General Contractor	16,743
Freytag and Associates	Stadium Architectural	3,154
Dave York Sports	Stadium Bleachers	13,839

14. DEFINED BENEFIT PENSION PLANS

A. 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 to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly 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.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

14. DEFINED BENEFIT PENSION PLANS (Continued)

The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$1,791,933, \$1,705,303 and \$1,161,185, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$12,453 made by the School District and \$34,886 made by plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. 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 required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$371,912, \$300,989 and \$191,433, respectively; 53 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

14. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

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

15. 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.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$138,799.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$263,611 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

16. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Certain administrators receive twenty days of vacation per year and may accumulate a total of sixty days. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and other administrative staff do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Teachers may accumulate sick leave up to a maximum of two hundred forty days through twenty-seven years of service, a maximum of two hundred fifty days for twenty-eight through thirty years of service, and two hundred sixty days for thirty-one or more years of service. Administrators may accumulate unlimited sick leave days. Classified employees may accumulate sick leave up to two hundred forty days. Upon retirement, payment is made for 25 percent of the first one hundred twenty days of accrued, but unused sick leave plus 15 percent of any remaining accrued, but unused sick leave for teachers and certain administrators with less than thirty years of service up to a maximum of forty-eight days. For teachers and administrators with more than thirty years of service, payment is made for 25 percent of the first one hundred twenty days of accrued, but unused sick leave plus 20 percent of any remaining accrued, but unused sick leave up to a maximum of fifty-eight days. Upon retirement, payment is made for 25 percent of the first one hundred twenty days of accrued, but unused sick leave plus 15 percent of any remaining accrued, but unused sick leave to a maximum of forty-eight days for classified employees.

B. Health Care Benefits

The School District provides medical and dental insurance benefits to most employees through the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust. The Board pays the entire monthly premium, except for part-time employees who pay a pro-rated portion for their benefits. The premium varies with employee depending on the terms of the union contract.

The School District also provides life insurance to active, full-time employees through the Hartford Life and Accident Insurance Company.

C. Special Termination Benefits

For fiscal year 2004, the School District offered a special termination benefit, in the amount of \$12,000, to any teacher with thirty or more years of experience who submitted a letter of retirement to the superintendent between September 1 and April 1 and completed the school year.

The School District also offered a special termination benefit to classified employees based on years of service with the School District.

<u>Years of Service</u>	<u>Incentive</u>
10 - 14 Years	\$ 500
15 - 19 Years	750
20 or more Years	1,000

At June 30, 2004, the School District did not have a liability for special termination benefits.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

17. NOTES PAYABLE

The School District's short-term obligations activity for the fiscal year ended June 30, 2004, was as follows:

	Interest Rate	Balance at 6/30/2003	Additions	Reductions	Balance at 6/30/2004
Governmental Activities					
Energy Conservation Notes					
July 17, 2002	2.15%	\$995,000	\$0	\$995,000	\$0
July 17, 2003	1.56	0	928,000	0	928,000
School Improvement Notes					
July 17, 2002	2.03	1,999,350	0	1,999,350	0
July 17, 2003	1.42	0	1,999,350	0	1,999,350
Certificates of Participation Notes	1.83	0	1,700,000	0	1,700,000
Total Governmental Activities		<u>\$2,994,350</u>	<u>\$4,627,350</u>	<u>\$2,994,350</u>	<u>\$4,627,350</u>

The energy conservation and school improvement notes are backed by the full faith and credit of the School District and have a maturity of one year. The notes will be paid from the Bond Retirement debt service fund.

On October 21, 2003, the School District entered into a lease agreement with the Sidney Community Foundation for constructing, equipping, and furnishing a new administration building. The Sidney Community Foundation entered into an agreement with a trustee through which it assigned and transferred its rights, title, and interest under the lease to Fifth Third Bank as Trustee. The Trustee issued Certificates of Participation notes in the lease agreement enabling holders of the Certificates to receive a portion of the semiannual lease payments. Proceeds from the issuance of the Certificates will be used to construct the new building.

The obligation of the School District under the lease and any subsequent lease renewal is subject to the annual appropriation of the rental payments. Legal title to the facilities remains with the trustee until all payments required under the lease have been made. At that time, title will be transferred to the School District. In the event the School District defaults on the lease, after thirty days the lessor may lease the campus to a new tenant. Under terms of the lease agreement, the School District may not lease, acquire, or allocate funds to acquire functionally similar facilities for thirty days after default. The lease obligation will be paid from the Bond Retirement debt service fund.

The Certificates of Participation notes are not a general obligation of the School District and are payable only from appropriations by the School District for annual lease payments.

At June 30, 2004, the proceeds from the certificates of participation notes, in the amount of \$840,210, have been expended for construction.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

18. LONG-TERM OBLIGATIONS

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

Governmental Activities	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04	Amounts Due Within One Year
General Obligation Bonds					
2001 School Improvement					
Serial Bonds 3.4 - 5%	\$3,680,000	\$0	\$390,000	\$3,290,000	\$430,000
Term Bonds 5.1 - 5.25%	15,345,000	0	0	15,345,000	0
Original Issue of Capital Appreciation Bonds					
15.92 - 29.35%	89,992	0	0	89,992	0
Accretion on Capital Appreciation Bonds	65,290	1,770	0	67,060	0
Serial and Term Bond Discount	(244,038)	4,732	0	(239,306)	0
Capital Appreciation Premium	461,098	0	18,332	442,766	0
Total 2001 School Improvement	<u>19,397,342</u>	<u>6,502</u>	<u>408,332</u>	<u>18,995,512</u>	<u>430,000</u>
2002 School Improvement					
Serial Bonds 2.5 - 5%	1,540,000	0	85,000	1,455,000	90,000
Term Bonds 5.125 - 5.625%	2,460,000	0	0	2,460,000	0
Total 2002 School Improvement	<u>4,000,000</u>	<u>0</u>	<u>85,000</u>	<u>3,915,000</u>	
Total General Obligation Bonds	23,397,342	6,502	493,332	22,910,512	520,000
1987 Asbestos Removal Loan 0%	49,415	0	14,116	35,299	14,120
Compensated Absences Payable	1,450,885	232,614	188,737	1,494,762	112,211
Total Governmental Activities Long-Term Liabilities	<u>\$24,897,642</u>	<u>\$239,116</u>	<u>\$696,185</u>	<u>\$24,440,573</u>	<u>\$646,331</u>
Business-Type Activity					
Compensated Absences	<u>\$3,144</u>	<u>\$118</u>	<u>\$0</u>	<u>\$3,262</u>	<u>\$3,072</u>

A. School Improvement General Obligation Bonds FY 2001

On May 8, 2001, the School District issued \$19,999,992 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$4,565,000, \$15,345,000, and \$89,992, respectively. The bonds are being retired from the Bond Retirement debt service fund, with a portion of the proceeds of a 3.70 mill voted property tax levy.

B. Series A Term Bonds

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2015 through 2018 (with the balance of \$445,000 to be paid at stated maturity on December 1, 2019), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

<u>Year</u>	<u>Amount</u>
2015	\$315,000
2016	345,000
2017	375,000
2018	410,000

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2020 through 2022 (with the balance of \$605,000 to be paid at stated maturity on December 1, 2023), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2020	\$470,000
2021	515,000
2022	555,000

The term bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2024 through 2027 (with the balance of \$545,000 to be paid at stated maturity on December 1, 2028), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2024	\$660,000
2025	720,000
2026	785,000
2027	850,000

C. Series B Term Bonds

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2015 through 2018 (with the balance of \$430,000 to be paid at stated maturity on December 1, 2019), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2015	\$305,000
2016	335,000
2017	360,000
2018	395,000

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2020 through 2022 (with the balance of \$590,000 to be paid at stated maturity on December 1, 2023), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2020	\$455,000
2021	500,000
2022	535,000

The term bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2024 through 2027 (with the balance of \$900,000 to be paid at stated maturity on December 1, 2028), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2024	\$645,000
2025	705,000
2026	765,000
2027	830,000

The serial bonds maturing on December 1, 2012, and thereafter, are subject to optional redemption, in whole or in part, on any date in order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after December 1, 2011, at the redemption prices (expressed as percentages of the principal amount to be redeemed) plus accrued interest to the redemption date:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2011 through November 30, 2012	101%
December 1, 2012 and thereafter	100

The capital appreciation bonds were sold at a premium of \$461,098. The capital appreciation bonds will mature in fiscal years 2014 and 2015. The maturity amount of the bonds is \$1,090,000. For fiscal year 2004, \$1,770 was accreted for a total bond value of \$157,052.

D. School Improvement General Obligation Bonds FY2002

On April 1, 2002, the School District issued \$4,000,000 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bond issue included serial and term bonds, in the amount of \$1,540,000 and \$2,460,000, respectively. The bonds are being retired from the Bond Retirement debt service fund, with a portion of the proceeds of a 3.70 mill voted property tax levy.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2017 through 2021 (with the balance of \$195,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2017	\$150,000
2018	160,000
2019	170,000
2020	175,000
2021	185,000

The term bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2023 through 2027 (with the balance of \$270,000 to be paid at stated maturity on December 1, 2028), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2023	\$210,000
2024	220,000
2025	230,000
2026	240,000
2027	255,000

The serial bonds maturing on December 1, 2013, and thereafter, are subject to optional redemption, in whole or in part, on any date in order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after December 1, 2012, at par, which is 100 percent of the face value of the bonds.

E. Asbestos Removal Loan

In 1987, the School District obtained an interest free loan, in the amount of \$254,153, for asbestos removal. The loan was obtained for a twenty year period, with final maturity in 2007. The loan is being repaid from the Bond Retirement debt service fund.

Compensated absences will be paid from the General Fund, Termination Benefits special revenue fund, and the Food Service enterprise fund.

The School District's overall debt margin was \$21,993,070 with an unvoted debt margin of \$514,958 at June 30, 2004.

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

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2005	\$520,000	\$195,502	\$0	\$926,829
2006	590,000	173,763	0	926,828
2007	685,000	148,220	0	926,829
2008	225,000	129,737	0	926,828
2009	325,000	118,261	0	926,829
2010-2014	1,990,000	317,109	0	4,634,144
2015-2019	410,000	31,500	3,150,000	4,342,863
2020-2024	0	0	6,035,000	3,081,300
2025-2029	0	0	8,620,000	1,157,672
Totals	<u>\$4,745,000</u>	<u>\$1,114,092</u>	<u>\$17,805,000</u>	<u>\$17,850,122</u>

Fiscal Year Ending	General Obligation Bonds		Asbestos
	Capital Appreciation		Removal Loans
	Principal	Interest	Principal
2005	\$0	\$0	\$14,120
2006	0	0	14,120
2007	0	0	7,059
2008	0	0	0
2009	0	0	0
2009-2013	46,852	473,148	0
2014-2017	43,140	526,860	0
Totals	<u>\$89,992</u>	<u>\$1,000,008</u>	<u>\$35,299</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

19. 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. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal 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 during fiscal year 2004.

	Textbooks	Capital Improvements
Balance June 30, 2003	(\$1,064,809)	\$0
Current Year Set Aside Requirement	534,291	534,291
Qualifying Expenditures	(1,012,590)	(304,096)
Current Year Offsets	0	(284,513)
Amount Carried Forward to Fiscal Year 2005	<u>(\$1,543,108)</u>	<u>(\$54,318)</u>
Set Aside Reserve Balance June 30, 2004	<u>\$0</u>	<u>\$0</u>

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

19. SET ASIDES (Continued)

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement of future fiscal years.

20. INTERFUND TRANSFERS

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$850,320 to set aside resources for future severance payments, to support the operations of athletic activities, and for permanent improvements; \$203,331 to the Bond Retirement debt service fund as debt payments became due, and \$4,260 to the Building capital projects fund to reimburse for costs that could not be paid with bond or note proceeds. The General Fund also made transfers, in the amount of \$45,000, to the Food Service enterprise fund which were used to support the operation of food service activities.

21. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust funds include donor restricted endowments. Endowments, in the amount of, \$223,297, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$226,077 and is included as held in trust for scholarships.

State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowments indicate that the interest should be used to provide scholarships each year.

22. JOINTLY GOVERNED ORGANIZATIONS

A. Upper Valley Joint Vocational School

The Upper Valley Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the fourteen participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from the Upper Valley Joint Vocational School, William Stump, Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent of the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

22. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Southwestern Ohio Educational Purchasing Cooperative

The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) was established in 1986 among educational entities located in southwestern Ohio to purchase instructional and operational supplies and materials. The SOEPC is organized under Ohio law as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities.

The SOEPC is governed by an elected Board consisting of ten representatives of the educational entities and the superintendent from the Montgomery County Educational Service Center. The Board, except for the superintendent from the Montgomery County Educational Service Center, is elected from an Assembly consisting of a representative from each participating educational entity. During fiscal year 2004, the School District paid \$3,642 to the SOEPC for various services. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 1831 Harshman Road, Dayton, Ohio 45424.

23. INSURANCE POOLS

A. Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool consisting of seventy school districts. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members.

Each participant decides which plans offered by the Trust that will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 1831 Harshman Road, Dayton Ohio 45424.

B. Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (Plan) was established as an insurance purchasing pool.

The Plan's business and affairs are conducted by the Southwestern Ohio Educational Purchasing Cooperative and the participating members of the Plan. The Benefits Administrator of the SOEPC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

24. RELATED ORGANIZATION

The Amos Memorial Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Sidney Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Amos Memorial Public Library, Scott Parsons, Clerk/Treasurer, 230 East North Street, Sidney, Ohio 45865.

25. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

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

26. CONTINGENCIES

A. Grants

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

27. SUBSEQUENT EVENTS

On July 8, 2004, the School District issued bond anticipation notes, in the amount of \$861,000, to retire notes previously issued for energy conservation projects. The notes had an interest rate of 2.52 percent and matured on December 15, 2004.

On July 8, 2004, the School District issued bond anticipation notes, in the amount of \$1,999,350, to retire notes previously issued for constructing, improving, and making additions to school buildings. The notes had an interest rate of 2.15 percent and matured on December 15, 2004.

On July 8, 2004, the School District issued \$1,615,000 in certificates of participation notes to retire notes previously issued for the construction of a new administration building. The notes had an interest rate of 2.56 percent and matured on December 15, 2004.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

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

27. SUBSEQUENT EVENTS (Continued)

On December 15, 2004, the School District issued bond anticipation notes, in the amount of \$794,000, to retire notes previously issued for energy conservation projects. The notes have an interest rate of 2.82 percent and mature on December 14, 2005.

On December 15, 2004, the School District issued bond anticipation notes, in the amount of \$1,500,000, to retire notes previously issued for constructing, improving, and making additions to school buildings. The notes had an interest rate of 2.67 percent and matured on December 14, 2005.

On December 15, 2004, the School District issued \$1,530,000 in certificates of participation notes to retire notes previously issued for the construction of a new administration building. The notes have an interest rate of 2.93 percent and mature on December 14, 2005.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
(Passed through State Dept. of Education)						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550		\$76,421		\$76,421
National School Breakfast Program	044784-05-PU-03 044784-05-PU-04	10.553	\$24,446 73,091		\$24,446 73,091	
Total National School Breakfast Program			97,537		97,537	
National School Lunch Program	044784-LL-N4-03 044784-LL-P4-04	10.555	110,817 329,534		110,817 329,534	
Total National School Lunch Program			440,351		440,351	
Total U.S. Department of Agriculture-Nutrition Cluster			537,888	76,421	537,888	76,421
U.S. Department of Health and Human Services						
(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program (CAFS)		93.778	61,043		61,043	
U.S. Department of Education						
(Passed through State Dept. of Education)						
<i>Special Education Cluster:</i>						
Title VI-B	044784-6B-SF-03P 044784-6B-SF-04P	84.027	77,475 464,431		90,205 430,302	
Total Title VI-B			541,906		520,507	
Preschool Grants	044784-PG-S1-03P 044784-PG-S1-04P	84.173	821 11,988		1,959 11,167	
Total Preschool Grants			12,809		13,126	
Total Special Education Cluster			554,715		533,633	
Title I	044784-C1-S1-03 044784-C1-S1-04	84.010	26,442 648,613		80,568 612,461	
Total Title I			675,055		693,029	
Drug Free Education	044784-DR-S1-03 044784-DR-S1-04	84.186	(1,307) 21,194		901 19,887	
Total Drug Free Education			19,887		20,788	
Goals 2000 Continuous Improvement	044784-G2-S9-01	84.276	(294)			
Innovative Education Program	044784-C2-S1-03 044784-C2-S1-04	84.298	2,421 28,043		5,355 25,619	
Total Innovative Education Program			30,464		30,974	
Title II-D Technology	044784-TJS1-03 044784-TJS1-04	84.318	(3,012) 14,830		15,053	
Total Title II-D Technology			11,818		15,053	
Comprehensive School Reform	044784-RF-S1-01	84.332	(1,651)			
Assistive Technology Infusion	044784-ATS3-02	84.352	(48)			
English Language Acquisition Grants	044784-T3S1-03 044784-T3S1-04	84.365	2,672 24,197		3,096 21,796	
Total English Language Acquisition Grants			26,869		24,892	
Improving Teacher Quality State Grants	044784-TRS1-03 044784-TRS1-04	84.367	20,940 197,415		24,152 205,529	
Total Improving Teacher Quality State Grants			218,355		229,681	
Total U.S. Department of Education			1,535,170		1,548,050	
Total Federal Financial Assistance			<u>\$2,134,101</u>	<u>\$76,421</u>	<u>\$2,146,981</u>	<u>\$76,421</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D - NEGATIVE RECEIPTS

The negative receipt in the Drug Free Education, for fiscal year 2003, represents the elimination of this grant. This receipt was transferred into the fiscal year 2004 Innovative Education Program Grant special cost center.

The negative receipts in the Goals 2000 Continuous Improvement Grant, Comprehensive School Reform Grant and Assistive Technology Infusion Grant represents the elimination of these grants. These receipts were returned to the Ohio Department of Education.

NOTE E - TRANSFER OF FUNDS BETWEEN SPECIAL COST CENTERS

The following transfers between fund cost centers were approved by the Ohio Department of Education.

Grant, CFDA #, Fund, and Cost Center	Transfer out	Transfer in
Title 1, Part A, ESEA - # 84.010		
572-2003	\$(34,062)	
572-2004		\$34,062
Title VI-B - #84.027		
516-2003	\$(4,927)	
516-2004		\$4,927
Preschool Grant - #84.173		
587-0503	\$(410)	
587-0504		\$410
Innovative Education Program Strategies - # 84.298		
573-2003	\$(3,012)	
573-2004		\$(3,012)
English Language Acquisition Grant - #84.367		
551-2003	\$(381)	
551-2004		\$381

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Sidney City School District
Shelby County
750 S. Fourth Street
Sidney, Ohio 45365

To the Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sidney City School District (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 29, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated April 29, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated April 29, 2005, we reported a matter related to noncompliance we deemed immaterial.

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Sidney City School District
Shelby County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, Members of the Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 29, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Sidney City School District
Shelby County
750 S. Fourth Street
Sidney, Ohio 45365

To the Members of the Board:

Compliance

We have audited the compliance of Sidney City School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The School District's management 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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**Internal Control Over Compliance
(Continued)**

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated April 29 2005.

We intend this report solely for the information and use of the management, Members of the Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 29, 2005

**SIDNEY CITY SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: CFDA #10.550, 10.553, 10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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**SIDNEY CITY SCHOOL DISTRICT
SHELBY 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 16, 2005**