

SHELBY CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Shelby City School District, Richland County, prepared by Gary B. Fink & Associates, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 31, 2005

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**SHELBY CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Shelby City School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because of the inadequacy of accounting records the budget revenues as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Statement) for the General Fund, do not agree with the Amended Official Certificate of Estimated Resources. Total estimated resources on the Certificate indicate estimated revenues of \$14,427,203 while the Statement reflects estimated revenues not including advances of \$15,008,084 for the original budget and \$15,364,757 for the final budget.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had accounting records permitted the allocation of estimated revenue between revenue accounts, 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 the District, as of June 30, 2004 and respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



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

April 14, 2005

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

The discussion and analysis of Shelby City School District's (the "District") financial performance provides an overall view 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; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets of governmental activities decreased \$1,154,944 while net assets of business-type activities decreased \$45,622.
- General revenues accounted for \$16,283,159 in revenue or 87.2% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,384,138 or 12.8% of total revenues of \$18,667,297.
- The District had \$18,880,637 in expenses and transfers related to government activities; only \$1,442,547 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$16,283,146 were not adequate to provide for these programs.
- The District had \$1,072,226 in expenses related to business-type activities. Program revenues of \$941,591 were not adequate to provide for this service.
- Capital outlay additions of \$1,221,865 consisted of \$25,266 in land, \$2,101 in land improvements, \$1,070,758 in furniture and equipment and \$123,740 in school buses and vehicles.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

These two 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 that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District food service and uniform school supplies are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement capital projects fund.

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

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004:

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Table 1
Net Assets

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
Assets						
Current Assets	\$9,313,167	\$9,826,681	\$25,705	\$68,352	\$9,338,872	\$9,895,033
Capital Assets	5,197,773	4,497,503	80,063	89,269	5,277,836	4,586,772
Total Assets	<u>14,510,940</u>	<u>14,324,184</u>	<u>105,768</u>	<u>157,621</u>	<u>14,616,708</u>	<u>14,481,805</u>
Liabilities						
Current Liabilities	9,248,321	7,751,007	55,349	98,653	9,303,670	7,849,660
Long-Term Liabilities	4,331,160	4,486,774	61,194	24,121	4,392,354	4,510,895
Total Liabilities	<u>13,579,481</u>	<u>12,237,781</u>	<u>116,543</u>	<u>122,774</u>	<u>13,696,024</u>	<u>12,360,555</u>
Net Assets						
Invested in Capital						
Assets, Net of Debt	4,139,278	3,447,503	80,063	89,269	4,219,341	3,536,772
Restricted	387,378	5,076,464	0	0	387,378	5,076,464
Unrestricted (Deficit)	(3,595,197)	(6,437,564)	(90,838)	(54,422)	(3,686,035)	(6,491,986)
Total Net Assets	<u><u>\$931,459</u></u>	<u><u>\$2,086,403</u></u>	<u><u>(\$10,775)</u></u>	<u><u>\$34,847</u></u>	<u><u>\$920,684</u></u>	<u><u>\$2,121,250</u></u>

The table below shows the changes in net assets for fiscal years 2004 and 2003:

Table 2
Change in Net Assets

	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$ 939,827	\$ 789,355
Operating Grants and Contributions	1,353,265	1,086,797
Capital Grants and Contributions	91,046	34,524
General Revenues:		
Property Taxes	8,209,180	6,128,869
Grants and Entitlements	7,763,946	7,054,025
Investment Earnings	28,300	83,559
Miscellaneous	281,733	263,101
Transfers In	85,000	92,119
Total Revenues	<u>18,752,297</u>	<u>15,532,349</u>

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Expenses

Program Expenses:

Instruction:		
Regular	8,680,370	7,606,072
Special	1,849,436	1,971,561
Vocational	533,788	511,636
Other	84,715	61,412
Support Services:		
Pupils	987,630	981,336
Instructional Staff	1,279,878	1,195,893
Board of Education	32,979	38,796
Administration	1,363,144	1,373,686
Fiscal	484,071	654,773
Operation of Maintenance of Plant	1,690,250	1,550,072
Pupil Transportation	926,480	826,687
Central	81,728	72,222
Operation of Non-Instructional Services	183,396	101,269
Extracurricular Activities	547,224	539,778
Facilities Acquisition and Construction	5,217	487,292
Other		45,418
Interest and Fiscal Charges	65,331	68,859
Food Service	1,039,364	913,522
Uniform School Supplies	32,862	42,876
Transfers Out	85,000	92,119
Total Expenses	<u>19,952,863</u>	<u>19,135,279</u>
Decrease in Net Assets	<u>\$ (1,200,566)</u>	<u>\$ (3,602,930)</u>

Governmental Activities

Net assets of the School District's governmental activities decreased by \$1,154,944. Program revenue of \$1,442,547 and general revenues of \$16,198,146 did not offset total governmental expenses of \$18,880,637. Program revenues supported 7.6% of the total governmental expenses.

Several revenue sources fund the District's governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated \$8,209,180 in fiscal year 2004. General revenues from grants and entitlements, such as the school foundation program, generated approximately \$7,763,946. These two revenue sources represent 91% of total governmental revenue.

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

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

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

Instruction costs comprise 59% of governmental program expenses.

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

Business-Type Activities

Business-type activities consist of the food service and uniform school supplies operations. These programs had revenue of \$904,535 and \$37,056 with expenses of \$1,039,364 and \$32,862, respectively. The District's general fund supported the food service program by transferring \$85,000 to the food service program.

The District's Funds

The District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$17,766,980 and total expenditures were \$18,722,248. The District expenditures exceed the revenue by \$955,268. This fact is a major challenge for the District.

The District's general fund balance decreased by \$925,972. The decrease in fund balance can be attributed primarily to the overall increase in salaries, wages and fringe benefits along with revenues not keeping pace with the cost of operations.

General Fund Budgeting Highlights

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

During Fiscal Year 2004, the District amended its general fund balance. Budget revisions are presented to the Board of Education for approval. This year amendments were considered routine.

For the general fund, the final budget basis revenue estimate was \$15,003,665, which was higher than the original revenue estimate of \$14,919,563

The original and final expenditures estimate were \$15,585,983. The actual expenditures were \$17,217,777. The reason for the increase in actual expenditures over estimated expenditures was mainly due to some one-time expenditures for retiree incentives.

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2004, the District had \$5,277,836 invested in land, buildings, equipment and vehicles. This is accounting for both Governmental Activities and Business-Type Activities assets. The table below shows a comparison of Fiscal Year 2004 to 2003.

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Capital Assets as of June 30, 2004
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	2004	2003	2004	2003
Land and Improvements	\$407,484	\$387,402	\$0	\$0
Buildings and Improvements	1,510,883	1,554,446	0	0
Furniture and Equipment	2,961,267	2,315,717	80,063	89,269
Vehicles	318,139	239,938	0	0
Total Capital Assets	<u>\$5,197,773</u>	<u>\$4,497,503</u>	<u>\$80,063</u>	<u>\$89,269</u>

Debt

As of June 30, 2004 the District had \$945,000 in energy conservation bonds and \$1,207,126 from a State of Ohio Bankruptcy Loan. The energy conservation bonds will be repaid from general property tax monies with final maturity occurring in June, 2013. The State of Ohio Bankruptcy Loan was received in fiscal year 2002 to cover the loss of property taxes due to the LTV-Copperweld bankruptcy.

For the Future

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

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

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

Contacting the District's Financial Management

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

**Shelby City School District
Richland County
Statement of Net Assets
June 30, 2004**

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,287,570	\$47,926	\$1,335,496
Receivables:			
Taxes	7,886,472	0	7,886,472
Accounts	5,740	476	6,216
Intergovernmental	0	27,326	27,326
Internal Balance	57,520	(57,520)	0
Prepaid Items	19,681	0	19,681
Inventory Held for Resale	0	7,497	7,497
Material and Supplies Inventory	56,184	0	56,184
Land	348,364	0	348,364
Capital Assets, Net of Depreciation	4,849,409	80,063	4,929,472
<i>Total Assets</i>	<u>14,510,940</u>	<u>105,768</u>	<u>14,616,708</u>
Liabilities			
Accounts Payable	243,760	2,509	246,269
Accrued Wages	1,561,478	52,840	1,614,318
Pension Obligation Payable	371,197	0	371,197
Deferred Revenue	6,759,247	0	6,759,247
Accrued Interest Payable	4,016	0	4,016
Claims Payable	308,623	0	308,623
Long-Term Liabilities:			
Due Within One Year	494,277	34,910	529,187
Due In More Than One Year	3,836,883	26,284	3,863,167
<i>Total Liabilities</i>	<u>13,579,481</u>	<u>116,543</u>	<u>13,696,024</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,139,278	80,063	4,219,341
Restricted for:			
Capital Projects	387,378	0	387,378
Unrestricted (Deficit)	<u>(3,595,197)</u>	<u>(90,838)</u>	<u>(3,686,035)</u>
<i>Total Net Assets</i>	<u>\$931,459</u>	<u>(\$10,775)</u>	<u>\$920,684</u>

See accompanying notes to the basic financial statements.

Shelby City School District
 Richland County
 Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction:							
Regular	\$8,680,370	\$164,463	\$299,495	\$6,048	(\$8,210,364)	\$0	(\$8,210,364)
Special	1,849,436	203,745	235,350	0	(1,410,341)	0	(1,410,341)
Vocational	533,788	0	0	0	(533,788)	0	(533,788)
Other	84,715	0	0	0	(84,715)	0	(84,715)
Support Services:							
Pupils	987,630	0	10,951	0	(976,679)	0	(976,679)
Instructional Staff	1,279,878	0	294,718	36,282	(948,878)	0	(948,878)
Board of Education	32,979	0	0	0	(32,979)	0	(32,979)
Administration	1,363,144	0	10,226	345	(1,352,573)	0	(1,352,573)
Fiscal	484,071	0	0	1,577	(482,494)	0	(482,494)
Operation and Maintenance	1,690,250	0	0	21,534	(1,668,716)	0	(1,668,716)
Pupil Transportation	926,480	0	44	20,977	(905,459)	0	(905,459)
Central	81,728	0	0	0	(81,728)	0	(81,728)
Operation of Non-Instructional Services	183,396	0	131,636	0	(51,760)	0	(51,760)
Extracurricular Activities	547,224	0	873	0	(546,351)	0	(546,351)
Facilities Acquisition and Construction Services	5,217	0	0	4,283	(934)	0	(934)
Interest and Fiscal Charges	65,331	0	0	0	(65,331)	0	(65,331)
Total Governmental Activities	18,795,637	368,208	983,293	91,046	(17,353,090)	0	(17,353,090)
Business-Type Activities							
Food Service	1,039,364	534,563	369,972	0	0	(134,829)	(134,829)
Uniform Supplies	32,862	37,056	0	0	0	4,194	4,194
Total Business-Type Activities	1,072,226	571,619	369,972	0	0	(130,635)	(130,635)
Totals	\$19,867,863	\$939,827	\$1,353,265	\$91,046	(17,353,090)	(130,635)	(17,483,725)
General Revenues							
Taxes:							
Property Taxes Levied for General Purposes					7,405,570	0	7,405,570
Property Taxes Levied for Capital Projects					803,610	0	803,610
Grants and Entitlements not Restricted to Specific Programs					7,763,946	0	7,763,946
Unrestricted Investment Earnings					28,287	13	28,300
Miscellaneous					281,733	0	281,733
Transfers and Advances (Net)					(85,000)	85,000	0
Total General Revenues and Transfers					16,198,146	85,013	16,283,159
Change in Net Assets					(1,154,944)	(45,622)	(1,200,566)
<i>Net Assets Beginning of Fiscal Year</i>					<u>2,086,403</u>	<u>34,847</u>	<u>2,121,250</u>
<i>Net Assets End of Fiscal Year</i>					<u>\$931,459</u>	<u>(\$10,775)</u>	<u>\$920,684</u>

See accompanying notes to the basic financial statements.

**Shelby City School District
Richland County
Balance Sheet
Governmental Funds
June 30, 2004**

	General	Permanent Improvement	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$547,620	\$447,773	\$168,724	\$1,164,117
Receivables:				
Taxes	7,552,709	333,763	0	7,886,472
Accounts	4,066	0	55	4,121
Interfund	42,356	416,000	413,200	871,556
Prepaid Items	19,681	0	0	19,681
Materials and Supplies Inventory	56,184	0	0	56,184
<i>Total Assets</i>	<u>\$8,222,616</u>	<u>\$1,197,536</u>	<u>\$581,979</u>	<u>\$10,002,131</u>
Liabilities				
Accounts Payable	\$170,416	\$1,365	\$71,979	\$243,760
Accrued Wages	1,453,546	0	107,932	1,561,478
Interfund Payable	829,200	0	42,356	871,556
Pension Obligation Payable	353,634	0	17,563	371,197
Deferred Revenue - Property Taxes	6,887,213	306,034	0	7,193,247
<i>Total Liabilities</i>	<u>9,694,009</u>	<u>307,399</u>	<u>239,830</u>	<u>10,241,238</u>
Fund Balances				
Reserved for Encumbrances	530,353	146,678	145,215	822,246
Reserved for Inventory	56,184	0	0	56,184
Reserved for Taxes Unappropriated	665,496	27,729	0	693,225
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	(2,723,426)	0	0	(2,723,426)
Special Revenue Funds (Deficit)	0	0	277,567	277,567
Debt Service Fund (Deficit)	0	0	(158,531)	(158,531)
Capital Projects Funds (Deficit)	0	715,730	77,898	793,628
<i>Total Fund Balances</i>	<u>(1,471,393)</u>	<u>890,137</u>	<u>342,149</u>	<u>(239,107)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,222,616</u>	<u>\$1,197,536</u>	<u>\$581,979</u>	<u>\$10,002,131</u>

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Funds Balances (\$239,107)

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 5,197,773

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:
Property Taxes 434,000

Some liabilities are not due and payable in the current and therefore are not reported in the funds:

Intergovernmental Payable	(117,568)
Retirement Incentive Payable	(735,472)
Compensated Absences Payable	(1,212,499)
Capital Lease Payable	(113,495)
State Property Tax Loan Payable	(1,207,126)
General Obligation Bonds and Notes Payable	(945,000)
Accrued Interest Payable	<u>(4,016)</u>

Total (4,335,176)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. The net assets of the internal service fund, including internal balances of \$57,520, are: (126,031)

Net Assets of Governmental Activities \$931,459

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$7,463,498	\$780,748	\$0	\$8,244,246
Intergovernmental	7,756,170	73,047	1,030,070	8,859,287
Investment Income	13,325	0	181	13,506
Tuition	140,224	0	0	140,224
Extracurricular Activities	24,239	0	203,745	227,984
Other	27,100	0	254,633	281,733
<i>Total Revenues</i>	<u>15,424,556</u>	<u>853,795</u>	<u>1,488,629</u>	<u>17,766,980</u>
Expenditures				
Current:				
Instruction:				
Regular	7,820,084	35,677	503,423	8,359,184
Special	1,422,840	0	290,954	1,713,794
Vocational	540,265	0	0	540,265
Other	84,715	0	0	84,715
Support Services:				
Pupils	846,071	0	109,328	955,399
Instructional Staff	1,007,783	107,845	426,209	1,541,837
Board of Education	34,112	0	0	34,112
Administration	1,295,335	2,036	22,487	1,319,858
Fiscal	446,533	9,305	0	455,838
Operation and Maintenance	1,574,453	127,026	0	1,701,479
Pupil Transportation	774,747	123,740	2,087	900,574
Central	81,728	0	0	81,728
Operation of Non-Instructional	30,184	0	134,767	164,951
Extracurricular Activities	459,754	0	112,249	572,003
Facility Acquisition and Construction Services	2,101	25,266	0	27,367
Debt Service:				
Principal Retirement	98,367	0	105,000	203,367
Interest and Fiscal Charges	12,227	0	53,550	65,777
<i>Total Expenditures</i>	<u>16,531,299</u>	<u>430,895</u>	<u>1,760,054</u>	<u>18,722,248</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(1,106,743)</u>	<u>422,900</u>	<u>(271,425)</u>	<u>(955,268)</u>
Other Financing Sources (Uses)				
Operating Transfers In	305,271	0	39,500	344,771
Operating Transfers Out	(124,500)	0	(305,271)	(429,771)
<i>Total Other Financing Sources (Uses)</i>	<u>180,771</u>	<u>0</u>	<u>(265,771)</u>	<u>(85,000)</u>
<i>Net Change in Fund Balances</i>	<u>(925,972)</u>	<u>422,900</u>	<u>(537,196)</u>	<u>(1,040,268)</u>
<i>Fund Balance (Deficits) Beginning of Year</i>	<u>(542,167)</u>	<u>467,237</u>	<u>879,345</u>	<u>804,415</u>
(Decrease) in Reserve for Inventory	(3,254)	0	0	(3,254)
<i>Fund Balance (Deficits) End of Year</i>	<u><u>(\$1,471,393)</u></u>	<u><u>\$890,137</u></u>	<u><u>\$342,149</u></u>	<u><u>(\$239,107)</u></u>

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County
Reconciliation of the 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 (\$1,040,268)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	1,221,865	
Depreciation Expense	(521,595)	
		700,270

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

Property Taxes	(35,066)	
Grants	(21,002)	
		(56,068)

Repayment of capital lease and bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.

Bonds	105,000	
Capital Leases	98,367	
		203,367

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 446

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Retirement Incentive	35,754	
Change in Inventory	(3,254)	
Compensated Absences	(82,616)	
Pension Obligations	(891)	
		(51,007)

The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense of the internal service fund, including internal balances of \$57,520, is allocated among the governmental activities. (911,684)

Change in Net Assets of Governmental Activities (\$1,154,944)

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Non-GAAP Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$7,043,679	\$7,044,927	\$7,044,927	\$0
Tuition	0	140,278	140,278	0
Transportation Fees	0	2,258	2,258	0
Intergovernmental	7,769,355	7,756,170	7,756,170	0
Investment Income	0	13,325	13,325	0
Classroom Materials and Fees	0	21,912	21,912	0
Other	106,529	24,795	24,795	0
Total Revenues	14,919,563	15,003,665	15,003,665	0
Expenditures				
Current:				
Instruction:				
Regular	7,311,959	7,311,959	7,831,177	(519,218)
Special	1,420,510	1,420,510	1,530,438	(109,928)
Vocational	472,766	472,766	546,112	(73,346)
Other	66,353	66,353	218,111	(151,758)
Support Services:				
Pupil	819,827	819,827	966,950	(147,123)
Instructional Staff	816,165	816,165	1,165,336	(349,171)
Board of Education	44,012	44,012	13,989	30,023
Administration	1,299,310	1,299,310	1,432,577	(133,267)
Fiscal	628,372	628,372	492,964	135,408
Operation and Maintenance of Plant	1,495,195	1,495,195	1,668,756	(173,561)
Pupil Transportation	702,500	702,500	800,949	(98,449)
Central	72,085	72,085	82,821	(10,736)
Operation of Non-Instructional Services	3,170	3,170	6,301	(3,131)
Extracurricular Activities	430,259	430,259	457,216	(26,957)
Facilities Acquisition and Construction Services	3,500	3,500	4,080	(580)
Total Expenditures	15,585,983	15,585,983	17,217,777	(1,631,794)
(Deficiency) of Revenues (Under) Expenditures	(666,420)	(582,318)	(2,214,112)	(1,631,794)
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	17,729	1,542	1542	0
Operating Transfer In	70,792	359,550	359,550	0
Operating Transfer Out	0	0	(178,779)	(178,779)
Advances In	169,003	830,076	830,076	0
Total Other Financing Sources (Uses)	257,524	1,191,168	1,012,389	(178,779)
Net Change in Fund Balance	(408,896)	608,850	(1,201,723)	(1,810,573)
Fund Balance (Deficit) at Beginning of Year	(782,436)	(782,436)	(782,436)	0
Prior Year Encumbrances Appropriated	1,952,664	1,952,664	1,952,664	0
Fund Balance (Deficit) at End of Year	\$761,332	\$1,779,078	(\$31,495)	(\$1,810,573)

See accompanying notes to the basic financial statements.

**Shelby City School District
Richland County
Statement of Net Assets
Proprietary Funds
June 30, 2004**

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$47,926	\$123,453
Receivables:		
Accounts	476	1,619
Intergovernmental	27,326	0
Inventory Held for Resale	7,497	0
Total Current Assets	<u>83,225</u>	<u>125,072</u>
Capital Assets, (Net)	<u>80,063</u>	<u>0</u>
<i>Total Assets</i>	<u>163,288</u>	<u>125,072</u>
Liabilities		
Current Liabilities:		
Accounts Payable	2,509	0
Accrued Wages	52,840	0
Compensated Absences Payable	479	0
Intergovernmental Payable	34,431	0
Claims Payable	0	308,623
Total Current Liabilities	<u>90,259</u>	<u>308,623</u>
Long-Term Liabilities:		
Compensated Absences Payable	<u>26,284</u>	<u>0</u>
Total Long-Term Liabilities	<u>26,284</u>	<u>0</u>
<i>Total Liabilities</i>	<u>116,543</u>	<u>308,623</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	80,063	0
Unrestricted	<u>(33,318)</u>	<u>(183,551)</u>
<i>Total Net Assets</i>	46,745	<u><u>(\$183,551)</u></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	<u>(57,520)</u>	
Net assets of business-type activities	<u><u>(\$10,775)</u></u>	

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Operating Revenues		
Food Services	\$534,563	\$0
Classroom Materials and Fees	37,056	0
Charges for Services	0	1,740,857
Extracurricular Activities	0	4,257
Other	0	15,146
<i>Total Operating Revenues</i>	<u>571,619</u>	<u>1,760,260</u>
Operating Expenses		
Salaries	315,327	0
Fringe Benefits	196,799	0
Purchased Services	38,007	5,846
Materials and Supplies	33,018	4,520
Cost of Sales	420,659	0
Depreciation	9,923	0
Claims	0	2,733,879
Other	973	0
<i>Total Operating Expenses</i>	<u>1,014,706</u>	<u>2,744,245</u>
<i>Operating (Loss)</i>	<u>(443,087)</u>	<u>(983,985)</u>
Non-Operating Revenues (Expenses)		
Federal Donated Commodities	122,850	0
Operating Grants	247,122	0
Interest Income	13	14,781
<i>Total Non-Operating Revenues (Expenses)</i>	<u>369,985</u>	<u>14,781</u>
<i>(Loss) Before Contributions and Transfers</i>	(73,102)	(969,204)
Transfers In	<u>85,000</u>	<u>0</u>
<i>Change in Net Assets</i>	11,898	(969,204)
<i>Net Assets at Beginning of Year</i>	<u>34,847</u>	<u>785,653</u>
<i>Net Assets (Deficits) at End of Year</i>	46,745	<u><u>(\$183,551)</u></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	<u>(57,520)</u>	
Net Assets (Deficits) of Business-Type Activities	<u><u>\$35,970</u></u>	

See accompanying notes to the basic financial statements.

**Shelby City School District
Richland County
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004**

	Business-Type Activity Enterprise Funds	Governmental Activity Internal Service Funds
Cash Flows from Operating Activities		
Cash Received from Customers	\$577,132	\$1,739,238
Cash Received from Extracurricular Activities	0	4,257
Cash Received from Other Operating Sources	0	15,146
Cash Payments for Goods and Services	(370,400)	(10,397)
Cash Payments to Employees for Services	(319,826)	0
Cash Payments for Employee Benefits	(195,063)	0
Cash Payments for Claims	0	(2,622,238)
Cash Payments for Other	(973)	0
Net Cash (Used in) Operating Activities	<u>(309,130)</u>	<u>(873,994)</u>
Cash Flows from Noncapital Financing Activities		
Operating Grants Received	248,934	0
Operating Transfers In	85,000	0
Net Cash Provided by Noncapital Financing Activities	<u>333,934</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities		
Payments for Capital Acquisitions	(717)	0
Net Cash (Used in) Capital and Related Financing Activities	<u>(717)</u>	<u>0</u>
Cash Flows from Investing Activities		
Interest on Investments	13	14,781
Net Cash Provided by Investing Activities	<u>13</u>	<u>14,781</u>
Net Increase (Decrease) in Cash and Cash Equivalents	24,100	(859,213)
Cash and Cash Equivalents Beginning of Year	<u>23,826</u>	<u>982,666</u>
Cash and Cash Equivalents End of Year	<u>\$47,926</u>	<u>\$123,453</u>
Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating (Loss)	(\$443,087)	(\$983,985)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation	9,923	0
Donated Commodities Revenue	122,850	0
(Increase) Decrease in Operating Assets:		
Accounts Receivable	3,701	(1,619)
Inventory Held for Resale	1,902	0
Intergovernmental	1,812	0
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(3,468)	(31)
Accrued Wages	(4,090)	0
Compensated Absences Payable	2,642	0
Intergovernmental Payable	(1,315)	0
Claims Payable	0	111,641
Total Adjustments	<u>133,957</u>	<u>109,991</u>
Net Cash (Used in) Operating Activities	<u><u>(\$309,130)</u></u>	<u><u>(\$873,994)</u></u>

See accompanying notes to the basic financial statements

Shelby City School District
Richland County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose	
	Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$828,724	\$70,449
Investments:		
In Segregated Accounts	12,328	0
Accrued Interest Receivable	347	0
<i>Total Assets</i>	<u>841,399</u>	<u>70,449</u>
Liabilities		
Accounts Payable	180	1,737
Undistributed Monies	0	2,248
Due to Students	0	66,464
<i>Total Liabilities</i>	<u>180</u>	<u>\$70,449</u>
Net Assets		
Restricted for:		
Reserved for Principal Endowment	233,460	
Unrestricted:		
Held for Trusts for Scholarships	<u>607,759</u>	
<i>Total Net Assets</i>	<u>\$841,219</u>	

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
	<u>Scholarship</u>
Additions	
Interest Income	\$16,848
Other Operating Income	<u>8,028</u>
Total Additions	<u>24,876</u>
Deductions	
Other	<u>28,105</u>
Total Deductions	<u>28,105</u>
Change in Net Assets	(3,229)
Net Assets at Beginning of Year	<u>844,448</u>
Net Assets at End of Year	<u><u>\$841,219</u></u>

See accompanying notes to the basic financial statements.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1854 through the consolidation of existing land areas and school Districts. The District serves an area of approximately 72 square miles. It is located in Richland County, and includes all of the City of Shelby and portions of Sharon, Plymouth, Jackson, Bloominggrove and Franklin Townships. The District is the 240th largest in the State of Ohio (among 612 Districts) in terms of enrollment. It is staffed by 97 non-certificated employees and 178 certificated full-time teaching personnel who provide services to 2,351 students and other community members. The District currently operates six instructional buildings, one administrative building, and one garage.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District.

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

Related Organization:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies:

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

A. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental 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 District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

FUND FINANCIAL STATEMENTS

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting Funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

Permanent Improvement Capital Projects Fund - The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds.

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

PROPRIETARY FUNDS

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

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

Internal Service Funds - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only Internal Service fund of the District accounts for a self-insurance program which provides dental benefits to employees.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are due to students for activities they have participated in.

C. Measurement Focus

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

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

D. Basis of Accounting

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

Revenues - Exchange and Non-exchange 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been 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 have also been reported as deferred revenue.

Expenses/Expenditures

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

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

E. Budgetary Process

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to a guaranteed investment contract, Federal Agency Securities, repurchase agreements, and STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value that is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase is reported at cost or amortized cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's office that 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 that is the price the investment could be sold for on June 30, 2004.

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 amounted to \$13,325, which includes \$1,965 assigned from other funds.

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

G. 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 recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

H. Inventories

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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

I. Bond Discounts, Premiums, and Issuance Costs

When the proceeds from general obligation bonded debt are placed in a governmental type fund, any bond issuance costs are shown as capital outlay expenditures. Any premium or discount is included in "Other Financing Sources - Bond Proceeds" on the Statement of Revenues, Expenditures and Changes in Fund Balance. The long-term debt that appears in the Government Wide Financial Statements would always be reported at the bond's face value.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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

K. Interfund Balances

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

L. 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 that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 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 District's termination policy. The District records a liability for accumulated unused sick leave for all employees age fifty (50) or greater in accordance with GASB 16.

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

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

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

O. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, material and supply inventories, property taxes, and budget stabilization in the governmental funds.

**SHELBY CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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

P. Operating Revenues and Expense

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

Q. Interfund Transactions

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

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

R. Estimates

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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

	Net Change in Fund Balance
	General
Budget Basis	\$ (1,201,723)
Adjustments:	
Revenue Accruals:	
Accrued FY2003, Received in Cash FY2004	(250,210)
Accrued FY2004, Not Yet Received in Cash	616,822
Expenditure Accruals:	
Accrued FY2003, Paid in Cash FY2004	2,025,699
Accrued FY2004, Not Yet Paid in Cash	(1,985,711)
Encumbrances	700,769
Other Financial Sources/Uses:	
Refunds	(1,542)
Advances (Net)	(830,076)
GAAP Basis	\$ (925,972)

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

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

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

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

Interim Deposits: those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principle and interest by the United States;

**SHELBY CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in § 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or 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 District had \$3,210 in undeposited cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At fiscal year end, the carrying amount of the School's deposits was \$137,414 and the bank balance was \$324,967. Of the bank balance, \$200,000 was covered by federal depository insurance.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The District's investment in STAR Ohio is unclassified because it is not evidenced by securities that exist in physical or book.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

	Category 1	Category 3	Fair Value	Carrying Amount
Repurchase Agreements	\$ -	\$ 738,787	\$ 738,787	\$ 738,787
Common Stock	12,328	-	12,328	12,328
STAR Ohio - Not categorized	-	-	1,355,258	1,355,258
Total Investments	\$ 12,328	\$ 738,787	\$ 2,106,373	\$ 2,106,373

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 2,246,997	\$ -
Cash on Hand	(3,210)	
Investments which are part of		
Repurchase Agreements	(738,787)	738,787
Common Stock	(12,328)	12,328
STAR Ohio - Not categorized	(1,355,258)	1,355,258
GASB Statement 3	\$ 137,414	\$ 2,106,373

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 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.

Public utility real for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

The District receives property taxes from Richland County. The County Auditor periodically advances to the 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 delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2004, was \$665,496 in the General Fund and \$27,729 in the Permanent Improvement Fund.

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

	2003 First-Half Collections		2004 Second-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Public Utility	\$ 189,376,110	80.00%	\$ 181,324,880	77.34%
Tangible Personal Property	47,336,780	20.00%	53,139,730	22.66%
Total Assessed Value	\$ 236,712,890	100.00%	\$ 234,464,610	100.00%
 Tax rate per \$1,000 of assessed valuation	 <u>\$49.60</u>		 <u>\$49.60</u>	

NOTE 6 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual fund loans receivables and payables:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Fund	\$ 42,356
Permanent Improvement	General	\$ 416,000
Nonmajor Governmental Fund:	General	\$ 413,200

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

B. Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

	Transfer In			
	General Fund	Nonmajor Governmental Funds	Enterprise Funds	Total
Transfer Out:				
General fund	\$ -	\$ 39,500	\$ 85,000	\$ 124,500
Nonmajor Governmental funds	<u>\$ 305,271</u>	<u> </u>	<u> </u>	<u>\$ 305,271</u>
Total	<u>\$ 305,271</u>	<u>\$ 39,500</u>	<u>\$ 85,000</u>	<u>\$ 429,771</u>

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

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the Statement of Activities.

NOTE 7 – ACCOUNTABILITY

At June 30, 2004, the Debt Service, Disadvantaged Pupil Impact Aid, Employee Health Liability and Title I Funds had deficit fund balances of \$158,532, \$18,975, \$69,388 and \$29,830, respectively. The general fund is liable for any deficit in these fund and provides operating transfers when cash is required, not when accruals occur.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of taxes, interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

<u>Receivables</u>	<u>Amount</u>
<u>Governmental Type Activities:</u>	
Taxes:	
General Fund	\$ 7,552,709
Permanent Improvement Fund	333,763
Total Taxes Receivable	<u>7,886,472</u>
Accounts:	
General Fund	4,066
Other Governmental Funds	55
Internal Service Fund	1,619
Total Accounts Receivable	<u>5,740</u>
Total Governmental Type Activities	<u>7,892,212</u>
<u>Business-Type Activities:</u>	
Accounts	476
Intergovernmental	27,326
Total Business-Type Activities	<u>27,802</u>
<u>Fiduciary:</u>	
Accrued Interest	<u>347</u>
Grand Total	<u>\$ 7,920,361</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 9 - CAPITAL ASSETS

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

	<u>6/30/2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/2004</u>
<u>Governmental Activities</u>				
Land	\$ 323,098	\$ 25,266	\$ -	\$ 348,364
Land Improvements	496,669	2,101	-	498,770
Buildings and Improvements	6,958,837	-	-	6,958,837
Furniture and Equipment	4,494,887	1,070,758	113,431	5,452,214
School Buses and Vehicles	1,192,359	123,740	-	1,316,099
Totals at Historical Cost	<u>13,465,850</u>	<u>1,221,865</u>	<u>113,431</u>	<u>14,574,284</u>
Less Accumulated Depreciation:				
Land Improvements	432,365	7,285	-	439,650
Buildings and Improvements	5,404,391	43,563	-	5,447,954
Furniture and Equipment	2,179,170	425,208	113,431	2,490,947
School Buses and Equipment	952,421	45,539	-	997,960
Total Accumulated Depreciation	<u>8,968,347</u>	<u>521,595</u>	<u>113,431</u>	<u>9,376,511</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,497,503</u>	<u>\$ 700,270</u>	<u>\$ -</u>	<u>\$ 5,197,773</u>
<u>Business-Type Activities</u>				
Furniture and Equipment	227,249	717	-	227,966
Less Accumulated Depreciation	<u>137,980</u>	<u>9,923</u>	<u>-</u>	<u>147,903</u>
Business-Type Activities Capital Assets, Net	<u>\$ 89,269</u>	<u>\$ (9,206)</u>	<u>\$ -</u>	<u>\$ 80,063</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 86,841
Special	571
Vocational	2,132
Support Service:	
Pupil	719
Instructional Staff	201,595
Board	130
Administration	10,751
Fiscal	3,942
Operation and Maintenance of Plant	139,277
Pupil Transportation	43,283
Operation of Non-Instructional Services	3,881
Extracurricular Activities	23,256
Facilities Acquisition and Construction	<u>5,217</u>
Total Depreciation Expense	<u>\$ 521,595</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District's insurance coverage was as follows:

Type of Coverage	Deductible		Liability Limit
Building and Contents-replacement cost	\$ 2,500	\$	41,078,693
Electronic Data Processing Equipment	\$ 1,000	\$	1,268,390
Theft, Disappearance and Destruction	\$ 500	\$	25,000
Automobile Liability	\$ 250	\$	2,000,000
Uninsured Motorists	\$ 250	\$	1,000,000
General Liability	\$ 3,000		\$1,000,000/\$2,000,000
Commercial Umbrella Liability			\$1,000,000/\$3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical, life, and dental insurance are offered to employees through a self-insurance internal service fund. The claims liability of \$196,982 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Balance	Current-Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	\$ 225,958	\$ 2,138,554	\$ 2,167,530	\$ 196,982
2004	\$ 196,982	\$ 2,733,879	\$ 2,622,238	\$ 308,623

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 43215-3476.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the 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 District's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2004, 2003, and 2002 were \$250,436, \$409,983, and \$357,072 respectively; 86.40 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. The unpaid pension contribution for fiscal year 2004 is \$34,059.

B. State Teachers Retirement System

The 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. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and the 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 balances from the existing DBP into the DCP or the CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

For the fiscal year ended June 30, 2004, plan members were required to contribute 10.0 percent of their annual covered salary and the 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 District's required contribution for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,118,676, \$1,170,021, and \$1,104,175, respectively; 81.3 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. The unpaid pension contribution for fiscal year end 2004 is \$209,192.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2004, the Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$86,052 for the fiscal year ended June 30, 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 million 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. Effective January 1, 2004, all retirees and beneficiaries are required to 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 this fiscal year ending June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the District, the amount to fund health care benefits, including surcharge, equaled \$164,739 for the fiscal year ended June 30, 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 net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 13 - COMPENSATED ABSENCES

Sick Leave

Each full time professional staff member is entitled to fifteen (15) days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth (1 1/4) days for each calendar month under contract. Sick leave is cumulative up to two hundred and eighty days.

Severance Pay

Certified Employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement pay is the certified employee's accrued but unused sick leave days at the time of retirement up to one-fourth of accrued but unused sick leave, up to a severance pay maximum of sixty-five days.

Non-Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement is one fourth of the first 160 days of accrued but unused sick leave; and one-third of any accrued but unused sick leave over 160 days to the maximum of 253 days which was effective July 1, 2004.

Administration employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement is forty percent (40 percent) of sick leave days accumulated from the one hundred twenty first day (121) through the two hundredth day (200) and fifty percent (50 percent) of sick leave days accumulated from the two hundred first day (201) through the three hundredth fortieth (340) day, and seventy-five percent (75 percent) of sick leave days accumulated from the three hundred forty first (341) day through the three hundred and seventy-fifth (375) day with a \$54,000 maximum payment. Employees must have five years service and accumulated sick leave of sixty (60) days sick leave.

NOTE 14 - SET ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amount not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the District is required to set aside money for budget stabilization. Due to the District having a negative cash balance in the general fund, the budget stabilization was eliminated to offset the negative balance. The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004:

	Textbook Reserve	Capital Maintenance Reserve	Total
Balance 7/1/03	\$ 326,190	\$ 233,776	\$ 559,966
Required Set-Aside	307,802	307,802	615,604
Current Year Offsets	-	(321,000)	(321,000)
Qualifying Expenditures	<u>(662,578)</u>	<u>(464,455)</u>	<u>(1,127,033)</u>
Balance 6/30/04	<u>\$ (28,586)</u>	<u>\$ (243,877)</u>	<u>\$ (272,463)</u>
Amount Carried Forward to Fiscal Year 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Restricted Assets			<u>\$ -</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 15 - LONG-TERM LIABILITIES

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

	Principal Outstanding 06/30/03	Additions	Reductions	Principal Outstanding 06/30/04	Amounts Due In One Year
<u>Governmental Activities</u>					
Energy Conservation Bonds 5.1%; Matures 06/1/2013	\$ 1,050,000	\$ -	\$ 105,000	\$ 945,000	\$ 105,000
State of Ohio Bankruptcy Loan No Interest.	1,207,126	-	-	1,207,126	-
Retirement Incentive	771,226	-	35,754	735,472	-
Intergovernmental Payable	116,677	891	-	117,568	117,568
Compensated Absences	1,129,883	82,616	-	1,212,499	165,478
Capital Lease Payable	<u>211,862</u>	<u>-</u>	<u>98,367</u>	<u>113,495</u>	<u>106,231</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 4,486,774</u>	<u>\$ 83,507</u>	<u>\$ 239,121</u>	<u>\$ 4,331,160</u>	<u>\$ 494,277</u>
<u>Business-Type Activities</u>					
Intergovernmental Payable	\$ -	\$ 34,431		\$ 34,431	\$ 34,431
Compensated Absences Payable	<u>24,121</u>	<u>2,642</u>	<u>-</u>	<u>26,763</u>	<u>479</u>
Total Business Type Activities Long-Term Liabilities	<u>\$ 24,121</u>	<u>\$ 37,073</u>	<u>\$ -</u>	<u>\$ 61,194</u>	<u>\$ 34,910</u>

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

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

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

The annual requirements to amortize the District's general obligation bonds outstanding as of June 30, 2004, including interest are as follows:

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 105,000	\$ 48,195	\$ 153,195
2006	105,000	42,840	147,840
2007	105,000	37,485	142,485
2008	105,000	32,140	137,140
2009	105,000	26,775	131,775
2010-2013	<u>420,000</u>	<u>53,550</u>	<u>473,550</u>
Total	<u>\$ 945,000</u>	<u>\$ 240,985</u>	<u>\$ 1,185,985</u>

NOTE 16 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for the acquisition of reproduction equipment and computers.

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds. A liability was recorded in the Government Wide Financial Statements for \$113,495. Principal payments in the fiscal year 2004 totaled \$98,367. This amount is reflected as "Debt Service Principal" in the General Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2004:

Year Ending June 30	Capital Lease Liability
2005	\$ 110,594
2006	<u>7,397</u>
Total Minimum Lease Payments	117,991
Less: Amount Representing Interest	<u>(4,496)</u>
Present Value of Future Minimum Lease Payment	<u>\$ 113,495</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 17- JOINT VENTURE WITHOUT EQUITY INTEREST

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

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

Pioneer Joint Vocational District - The Pioneer Joint Vocational District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating Districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Pioneer Career and Technology Center, a Vocational District, Jerry A. Payne, who serves as Treasurer, at P.O. Box 309, 27 Ryan Road, Shelby, Ohio 44875.

NOTE 19 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The Workers Compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 20 - CONTINGENT LIABILITIES

A. Grants

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

B. Litigation

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

C. School Funding Decision

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 21 – SUBSEQUENT EVENTS

In March 2005, the District passed a resolution to issue \$692,000 in notes to cover the current operations of the District.

A fiscal emergency may be declared if all of the following conditions are met: 1)an operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 10 percent, but does not exceed 15 percent of the school districts general fund revenue for the preceding fiscal year; 2) there was not a vote in favor of levying a tax that could possibly cause (1) above to no longer apply; and 3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's financial problems and to prevent further fiscal decline. The District was officially declared to be in fiscal emergency on April 11, 2005.

**CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118**

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Shelby City School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 14, 2005. The report was qualified because we were unable to satisfy ourselves about budgeted revenues as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-01 through 2004-06. We also noted certain immaterial instances of noncompliance that we have reported to management of the District, in a separate letter dated April 14, 2005.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 14, 2005.

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



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

April 14, 2005

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

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

Compliance

We have audited the compliance of the Shelby City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in items 2004-07 through 2004-12 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding financial reporting, Individualized Education Program (IEP), activities allowed or unallowed and cash management that are applicable to its Special Education – Grants to State program, the Innovative Education Program and Class Size Reduction. Compliance with such requirements is necessary, in our opinion, for the District, to comply with requirements to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-13.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2004-13 above to be a material weakness.

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



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

April 14, 2005

Shelby City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	044776-05PU-2004	\$22,549	\$22,549
School Breakfast Program	10.553	044776-05PU-2003	<u>3,121</u>	<u>3,121</u>
Total School Breakfast Program			<u>25,670</u>	<u>25,670</u>
National School Lunch Program	10.555	044776-LLP4-2004	160,164	160,164
National School Lunch Program	10.555	044776-LLP4-2003	<u>51,707</u>	<u>51,707</u>
Total National School Lunch Program			<u>211,871</u>	<u>211,871</u>
Special Milk Program for Child	10.556	044776-02PU-2004	2,180	2,180
Special Milk Program for Child	10.556	044776-02PU-2003	<u>777</u>	<u>777</u>
Total Special Milk Program for Child			<u>2,957</u>	<u>2,957</u>
Food Distribution	10.550		<u>122,850</u>	<u>122,850</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>363,348</u>	<u>363,348</u>
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Innovative Education Program	84.298	044776-C2S1-2001	0	11,636
Innovative Education Program	84.298	044776-C2S1-2004	22,679	964
Innovative Education Program	84.298	044776-C2S1-2003	<u>0</u>	<u>14,773</u>
Total Innovative Education Program			<u>22,679</u>	<u>27,373</u>
Title I Grants to Local Educational Agencies	84.010	044776-C1S1-2002	0	19
Title I Grants to Local Educational Agencies	84.010	044776-C1S1-2004	263,172	246,934
Title I Grants to Local Educational Agencies	84.010	044776-C1S1-2003	<u>0</u>	<u>41,051</u>
Total Title I			<u>263,172</u>	<u>288,004</u>
Safe and Drug-Free Schools	84.186	044776-DRS1-2004	9,487	1,012
Safe and Drug-Free Schools	84.186	044776-DRS1-2002	0	200
Safe and Drug-Free Schools	84.186	044776-DRS1-2003	<u>0</u>	<u>9,927</u>
Total Safe and Drug-Free Schools and Communities			<u>9,487</u>	<u>11,139</u>
Class Size Reduction	84.340	044776-CRS1-2002	0	19,687
Class Size Reduction	84.340	044776-CRS1-2001	0	2,361
Class Size Reduction	84.340	044776-CRS1-2000	0	32,613
Class Size Reduction	84.340	044776-CRS1-1999	<u>0</u>	<u>9,093</u>
Total Class Size Reduction			<u>0</u>	<u>63,754</u>
Special Education Cluster:				
Special Education-6BS3-2002P	84.027	044776-6BS3-2002-P	0	35
Special Education-6BSD-2003P	84.027	044776-6BSD-2003-P	21,000	38,404
Special Education-6BSD-2003P	84.027	044776-6BSD-2004-P	22,500	0
Special Education-6BSF-2002P	84.027	044776-6BSF-2002-P	0	104,558
Special Education-6BSF-2004P	84.027	044776-6BSF-2004-P	288,564	268,062
Special Education-6BSF-2003P	84.027	044776-6BSF-2003-P	0	190,042
Special Education-6BSF-2001P	84.027	044776-6BSF-2001-P	<u>0</u>	<u>1,284</u>
Total Special Education Cluster			<u>332,064</u>	<u>602,385</u>
Eisenhower Professional Development State Grants	84.281	044776-MSS1-2002	0	9,894
Eisenhower Professional Development State Grants	84.281	044776-MSS1-2001	<u>0</u>	<u>876</u>
Total Eisenhower Professional Development State Grants			<u>0</u>	<u>10,770</u>
Improving Teacher Quality State Grants	84.367	044776-TRS1-2002	0	16,164
Improving Teacher Quality State Grants	84.367	044776-TRS1-2004	137,126	113,087
Improving Teacher Quality State Grants	84.367	044776-TRS1-2003	<u>0</u>	<u>76,242</u>
Total Improving Teacher Quality State Grants			<u>137,126</u>	<u>205,493</u>
Technology Literacy Program	84.318	044776-TJS1-2004	<u>7,123</u>	<u>0</u>
Comprehensive School Reform	84.332	044776-RFS2-1999	<u>8,522</u>	<u>0</u>
Total U.S. Department of Education			<u>780,173</u>	<u>1,208,918</u>
Total Federal Assistance			<u>\$1,143,521</u>	<u>\$1,572,266</u>

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

SHELBY CITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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 disbursed. 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.

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

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

(d)(1)(vii)	Major Program:	Child Nutrition Cluster, CFDA #10.553, #10.555, #10.556 and #10.550; Special Education-Grants to State, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

2004-01

Section 5705.10, Revised Code, requires that monies paid into any fund be used only for the purposes for which such fund is established. The District had negative cash balances at June 30, 2004 in the following funds:

Fund	Amount
DPIA	\$18,975
Title I	29,830
Bond Retirement	158,532
Employee Health Liability	69,388

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of those funds. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

2004-02

Section 5705.36, Revised Code, requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units certify to the County Auditor, the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

The District has provided us with a certificate of the total amount from all sources available for expenditure and balances, however, we cannot determine when the certificate was prepared and the certificate was not filed with the County Auditor.

The Certificate that was prepared included the principal of the nonexpendable trust funds which is required to be excluded from the amount of unencumbered balances that are certified pursuant to Section 5705.131, Revised Code.

2004-03

Section 5705.36, Revised Code, allows subdivisions to request amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificates of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

The Treasurer should have amended the estimated resources for the Bond Retirement Fund due to expenditures exceeding actual resources available.

2004-04

Section 5705.39, Revised Code, states that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriation from each fund does not exceed the total official estimate or amended official estimate.

The Treasurer did not file the annual appropriation measure with the County Auditor. As a result, the appropriation measure was not in effect and expenditure made were not legally expended. Also, the appropriation measure passed by the Board had appropriations in excess of available resources in the Debt Service Fund, Food Service Fund, Uniform School Supplies and the Rotary Funds.

2004-05

Section 5705.41(B), Revised Code, requires that no subdivision or taxing unit is to expend money unless it has been properly appropriated.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

District expenditures exceeded appropriations at the fund level in the following instances at June 30, 2004:

Fund Type - Fund	Appropriations	Expenditures/ Encumbrances	Variance
Special Revenue:			
Other Grant Fund	\$262,880	\$460,398	(\$197,518)
State Funds	77,090	448,347	(371,257)
Federal Funds	43,461	1,119,756	(1,076,295)
Capital Projects:			
Perm. Improvement	730,347	1,065,999	(335,652)
Enterprise:			
Food Service	1,161,909	1,260,977	(99,068)
Internal Service:			
Health Insurance	2,229,677	2,763,800	(534,123)
Expendable Trust:			
Expendable Trust	20,716	21,500	(784)
Nonexpendable Trust	10,573	10,906	(333)

2004-06

Section 5705.14, 5705.15 and 5705.16, Revised Code, provides guidelines pertaining to allowable interfund transfers. Generally, before an interfund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board and such taxing authority shall prepare a petition to be presented to the tax commissioner and to the Court of Common Pleas of the County, requesting approval of said transfers. The following transfers did not have the proper approval:

Transfer From	Transfer To	Amount
Title VI-B	General Fund	\$241,335.06
Title VI	General Fund	11,635.60
Class Size Reduction	General Fund	19,686.63

If permissible, the Treasurer should directly record receipts or expenditures into the aforementioned funds rather than transferring these monies. Otherwise, the Treasurer should obtain proper authorization for transfers from funds other than the General Fund.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

Advances:

Interfund cash advances are subject to the following requirements:

-Any advance must be clearly labeled as such and are intended to temporarily reallocate cash from one fund to another and involve an expectation of repayment:

-In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established; and

-Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:

- A specific statement that the transaction is an advance of cash, and
- An indication of the money (fund) from which it is expected that repayment will be made.

The General Fund received advances from the following funds which do not have the same statutory authority as the General Fund:

Advance From	Advance To	Amount
Land Acquisition/Improvement	General Fund	\$385,000
H.B. 264 Project	General Fund	31,000
Other Grants	General Fund	216,100
OneNet	General Fund	52,100
Summer Intervention	General Fund	90,000
Battell-Gifted	General Fund	55,000
Eisenhower Grant	General Fund	876

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

3. FINDINGS FOR FEDERAL AWARDS

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
Identification Number: 044776-6BSF-2004
CFDA Number: 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-07

Criteria: 34CFR, Subpart C, Section 80.20(b)(1) Financial Reporting requires accurate, current and complete disclosure of the financial results of financially assisted activities. Also, in accordance with Section 80.21, recipients must have procedures to minimize the time elapsing between the transfer of funds and disbursement.

Condition Found: The District submitted five project cash requests and only the initial request reflected financial information that could be traced back to the financial ledgers of the District. Three of the five project cash requests reflected negative fund balances (expended more than received). This resulted in additional funds being received than needed for the programs immediate needs. In one instance, additional funds were requested and the District's ledgers showed \$108,795 on hand. The May 24, 2004 project cash request reflected total expenditures of \$259,707.73 while the disbursement ledgers showed disbursements of \$104,679.96 through May 24, 2004 for a difference of \$155,027.77. At June 30, 2004, the ledgers reflected total expenditures of \$268,862.31 and the total allocation received of \$288,564.14 resulting in \$19,701.83 on hand.

Recommendation: The District needs to report the actual financial activity as reflected in the books of the District at the time of making the cash request. A printout of the activity as represented in the books should be kept with a copy of the project cash request. Requests should also be kept to the limited allowable of one month (up to 10% of the approved budget amount) plus any negative balance.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
Identification Number: 044776-6BSF-2004
CFDA Number: 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-08

Criteria: 34CFR 300.347 Contents of the Individualized Education Program (IEP) for each child should include the following:

1. A statement of the child’s present level of educational achievement;
2. A statement of the annual goals;
3. A statement of the special education and related services to be provided;
4. The projected dates for initiation of the services and the anticipated durations of the services; and
5. Appropriate objective criteria and evaluation procedures.

Condition Found: 40 IEP were selected for testing with the following results:

- 15 instances in which the IEP did not list all of the related services to be preformed.
- Four instances in which the IPE did not show initiation dates and/or anticipated duration of the services.
- One instance where the IEP did not contain the appropriate objective criteria and evaluation procedures.

The IEP should have the signatures of the parent, child’s regular education teacher, District representative and the child’s special education teacher. Fifteen of the files tested did not contain one or more of the above signatures.

Recommendation: The District needs to make sure the IEP include the five required elements and appropriate signatures. The District should put into place a monitoring system whereby IEP’s are reviewed at least on a sample basis to make sure IEP’s are being properly completed.

SHELBY CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)**

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
 Identification Number: 044776-6BSF-2004
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2004-09

Criteria: The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amounts actually expended, not encumbered).

Condition Found: The amounts reported in the final expenditure report did not agree with the amounts recorded in the expenditure ledger as follows:

	Final Expenditure Report	Expenditure Ledger	Over/ (Under) Stated
Salaries	\$217,836.43	\$243,468.88	(\$25,632.45)
Retirement/Fringe			
Benefits	62,746.95	91,503.04	(28,756.09)
Purchased Services	7,980.76	4,062.04	3,918.72

Questioned Costs: The amount spent on purchased services was overstated in the final expenditure report by \$3,918.72.

Recommendation: The District is to report the actual expenditures authorized. Any expenditures in excess of those authorized should not be recorded in the Special Education Fund. The expenditures in excess of those authorized should be reported in the local funds (General). The Special Education Funds are intended to supplement local funds and should be accounted for accordingly.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
 Identification Number: 044776-6BSF-2001P, 044776-6BSF-2002P and 044776-6BSF-2003P
 CFDA Number: 84.027
 Federal Award Number: 044776
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2004-10

Criteria: In accordance with OMB Circular A-87, cost means an amount as determined on a cash, accrual or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund to be allowable under Federal awards, costs must be adequately documented.

Condition Found: Transfers were made from the Special Education Fund to the General Fund totaling \$241,335.06.

Questioned Costs: Transfers were made out of the following grants:

044776-6BSF-2001P	\$1,284.00
044776-6BSF-2002P	104,242.95
044776-6BSF-2003P	<u>135,808.09</u>
	<u>\$241,335.04</u>

The above transfers were made to reimburse the General Fund for costs paid out of the General Fund that should have been paid out of the Special Education Fund. At the time of the initial transfer, supporting documentation does not appear to have been pulled together to support the transfer. The District has recently identified costs paid out of the General Fund to support the need for the transfers.

Recommendation: All direct costs that are allowable under the program need to be charged to the appropriate fund and be adequately documented.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

Federal Program: Innovative Education Program - Fiscal Year 2004
Identification Number: 044776-C251-2001
CFDA Number: 84.298
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-11

Criteria: In accordance with OMB circular A-87, cost means an amount as determined on a cash, accrual or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund. To be allowable under Federal awards, costs must be adequately documented.

Condition Found: A transfer of \$11,635.60 was made from the Innovative Education Program

Questioned Costs: Transfer to the General Fund \$11,635.60

The above transfer was made to reimburse the General Fund for cash paid out of the General Fund that should have been paid out of the Innovative Education Program. At the time of the initial transfer, supporting documentation does not appear to have been generated. The District has recently identified costs paid out of the General Fund to support the need for the transfers.

Recommendation: All direct costs that are allowable under the program need to be charged to the appropriate fund and be adequately documented.

Federal Program: Class Size Reduction – Fiscal Year 2004
Identification Number: 044776-CRS1-1999, 04776-CRS1-2000 AND 044776-CRS1-2002
CFDA Number: 84.340
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-12

Criteria: In accordance with OMB Circular A-87, cost means an amount as determined on a cash, accrual or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund. To be allowable under Federal awards, costs must be adequately documented.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

Condition Found: Transfers were made from the Class Size Reduction Program totaling \$60,821.62

Questioned Costs: Transfers were made out of the following grants:

044776-CRS1-1999	\$8,521.50
044776-CRS1-2000	32,613.49
044776-CRS1-2002	19,686.63
	\$60,821.62

The above transfers were made to reimburse the general fund for costs paid out of the General Fund that should have been paid out of the Class Size Reduction Program. At the time of the initial transfer, supporting documentation does not appear to have been generated. The District has recently identified costs paid out of the General Fund to support the need for the transfers.

Recommendation: All direct costs that are allowable under the program need to be charged to the appropriate fund and be adequately documented.

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
 Identification Number: 044776-6BSF-2004
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

Material Weakness

2004-13

Criteria: Standards for Financial Management Systems 34CFR, Subpart C, Section 80.20 requires, in part, that grantees meet the following requirements:

1. Financial Reporting: Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

SHELBY CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)**

2. Accounting Records. Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
3. Internal Control. Effective control and accountability must be maintained for all grant cash, real and personal property and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes
4. Budget Control. Actual expenditures or outlays must be compared with budgeted amounts for each grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate.
5. Applicable OMB cost principles, agency program regulations and the terms of grant and subgrant agreements will be followed in determining the reasonableness allowability and allocability of costs.
6. Source Documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll reports, time and attendance records, contract award documents, etc.
7. Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and subgrantees must be followed whenever advance payment procedures are used.

Condition Found:

The following weaknesses were noted during our audit relating to the Standards for Financial Management Systems:

1. Financial Reporting – amounts presented on the Project Cash Request and Financial Expenditure Reports did not match amounts reported in the receipt and disbursement ledgers of the District.

SHELBY CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)**

2. Accounting Records – the ledgers did not adequately identify the application of funds provided for financially assisted activities. Transfers were made from the funds accounting for the grant income to the General Fund where some of the costs were being accounted.
3. Internal Control – effective monitoring of Project Cash Requests and Final Expenditure Reports were not being performed.
4. Budgetary Control – comparisons of actual expenditures to authorized budgets were not been performed.
5. Source Documentation – source documentation for costs being charged to the General Fund and later reimbursed by transfers was not maintained. The transfers were made with remaining funds in the Federal program without justification for the amounts.
6. Cash Management – cash requests were not based on actual disbursements and cash on hand resulting in excess cash being drawn down.

Recommendation: The following procedures should be put in place:

1. Financial Reporting – reports submitted by the Treasurer need to be reviewed to verify that information being presented is accurate.
2. Accounting Records – all costs to be paid for by grant funds need to be recorded in the appropriate grant fund at the time of payment. This will allow for an audit trail and provide accurate information for preparing reports.
3. Internal Control – effective monitoring of reports prepared by the Treasurer and the allocation of expenditures should be performed. Those individuals monitoring reports and allocation of costs need to have familiarity with the reporting requirements along with what costs are allowable and unallowable for the Federal program.

SHELBY CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)**

4. Budget Control – a comparison of actual costs being incurred to the approved budget for the Federal program should be done on a regular basis. This will identify potential problems (ie. costs greater than budgeted amounts or insufficient costs being charged to the program) in a timely manner and enable management to correct prior to rather than after the fact.
5. Source Documentation – all costs need to be supported by source documentation. Payroll reports should allocate individual employees being charged to the Federal program at the time of payment. Purchase requisitions and purchase orders should have the proper account to be charged. Those individuals responsible for approving payroll and purchases need to be familiar with where charges can be charged.
6. Cash Requests – cash requests other than the initial request are to be limited to 10% of the approved budget plus any negative balance.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-1	Ohio Revised Code Section 5705.40, appropriation amendments not passed at same level of control as the annual appropriation.	Yes	Corrected
2003-2	Ohio Revised Code Section 5705.41(B), several funds had expenditures and encumbrances which exceeded appropriations.	No	Not corrected. Reissued as finding number 2004-5



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SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 13, 2005**