

**SHELBY CITY SCHOOL DISTRICT
GENERAL PURPOSE FINANCIAL STATEMENTS**

**TOGETHER WITH AUDITOR'S REPORT AND
AUDITOR'S REPORTS ON INTERNAL CONTROL,
COMPLIANCE, SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS AND OTHER MATTERS**

JULY 1, 2000 - JUNE 30, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

We have reviewed the Independent Auditor's Report of the Shelby City School District, Richland County, prepared by Reichert & Associates, CPAs, for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

October 11, 2001

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SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

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SHELBY CITY SCHOOL DISTRICT
25 HIGH SCHOOL STREET
SHELBY, OHIO 44875

ELECTED OFFICIALS
AS OF JUNE 30, 2001

<u>Elected Officials</u>	<u>Title</u>	<u>Term of Office</u>	<u>Surety</u>
<u>Board of Education</u>			
Fred McKinney	President	1/1/00 - 12/31/03	(A)
William Roush	Vice President	1/1/98 - 12/31/01	
Gregory Friebel	Member	1/1/98 - 12/31/01	
Carol Knapp	Member	1/1/00 - 12/31/03	
Randall Terman	Member	1/1/98 - 12/31/01	

Statutory Legal Counsel

R. Lee Sheperd
Shelby City Law Director
23 West Maine Street
Shelby, Ohio 44875

(A) Nationwide Mutual Insurance Company for \$20,000, for the period 1/1/99 to 1/1/02.

SHELBY CITY SCHOOL DISTRICT
25 HIGH SCHOOL AVENUE
SHELBY, OHIO 44875

ADMINISTRATIVE PERSONNEL
AS OF JUNE 30, 2001

<u>Personnel</u>	<u>Term of Office</u>	<u>Surety</u>
<u>Superintendent</u> Stephen C. Bell	8/1/97-7/31/2000	(A)
<u>Treasurer</u> Michael Wade	Organizational Meeting 1999 to Organizational Meeting 2002	(B)

(A) Nationwide Mutual Insurance Company for \$20,000, for the period 1/1/99 to 1/1/2002.

(B) Nationwide Mutual Insurance Company for \$50,000, for the period 1/1/99 to 1/1/2003.

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY
INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund Type:

001 General Fund

Special Revenue Fund Type:

018 Public School Support Funds
019 Abatement Funds
032 School Improvement Models
300 District Managed Activity Funds
401 Auxiliary Service Funds
416 Teacher Development Fund
432 Education Management Information Systems
447 Disadvantaged Pupil Impact Aid
451 Network Connectivity
452 SchoolNet Professional Development
455 Textbook
459 Ohio Reads
460 Summer Intervention
465 Extended Learning Opportunity Adj.
499 Miscellaneous State Grants
514 Eisenhower Presidential Excellence Grant
516 Handicapped Preschool & School Programs-Title VI-B Fund
572 Education Consolidation & Improvement Act-Title I Fund
573 Innovative Education Program Strategy - Title VI
584 Drug Free School Program
588 E - Rate fund
599 Miscellaneous Federal Grants

Debt Service Fund Type:

002 Bond Retirement Fund

Capital Projects Fund Type:

003 Permanent Improvement Fund
450 School Net Fund
458 Video Distance Learn - 2001

PROPRIETARY FUND TYPE:

Enterprise Fund Type:

006 Food Service Fund
009 Uniform School Supplies Fund

Internal Service Fund Type:

014 Rotary Fund
024 Employee Benefits Self Insurance

FIDUCIARY FUND TYPES:

Expendable Trust Fund Type:

007 Special Trust Fund

Nonexpendable Trust Fund Type:

008 Endowment

Agency Fund Type:

022 District Agency
200 Student Activities Fund

ACCOUNT GROUPS:

General Fixed Assets Account Group
General Long-Term Debt Account Group

REICHERT & ASSOCIATES, CPA'S

**206 West Hardin Street
Findlay, Ohio 45840
Phone (419) 422-6131
Fax (419) 422-1372**

INDEPENDENT AUDITOR'S REPORT

Board of Education
Shelby City Schools
25 High School Avenue
Shelby, Ohio 44875

We have audited the accompanying general-purpose financial statements of the Shelby City School District, as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Shelby City School District, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 14, 2001 on our consideration of the Shelby City School 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Shelby City School District taken as a whole. 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 general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

September 14, 2001
Findlay, Ohio

REICHERT & ASSOCIATES, CPA'S
CERTIFIED PUBLIC ACCOUNTANTS

Combined Balance Sheet
All Fund Types and Account Groups

June 30, 2001

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets		General Long-Term Obligations
Assets and Other Debits:										
Assets:										
Equity in Pooled Cash and Investments:	\$906,847	\$498,235	\$145,190	\$278,061	\$43,413	\$2,175,919	\$844,876	\$0	\$0	\$4,892,541
Investments:										
In Segregated Accounts	0	\$0	\$0	0	0	0	33,400	0	0	33,400
Receivables:										
Taxes	7,794,333	0	0	340,614	0	0	0	0	0	8,134,947
Accounts	1,564	653	0	0	1,099	0	334	0	0	3,650
Intergovernmental	10,512	0	0	0	0	0	0	0	0	10,512
Accrued Interest	0	0	0	0	0	0	7,701	0	0	7,701
Interfund Receivable	314,579	0	0	0	0	0	0	0	0	314,579
Prepaid Items	11,522	0	0	0	0	0	0	0	0	11,522
Inventory Held for Resale	0	0	0	0	9,079	0	0	0	0	9,079
Materials and Supplies Inventory	61,324	0	0	0	0	0	0	0	0	61,324
Equity in Pooled Cash and Investments:										
Restricted	1,257,873	0	0	0	0	0	0	0	0	1,257,873
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0	85,452	0	0	11,815,198	0	11,900,650
Other Debits:										
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0	0	0	0	0	145,190	145,190
Amount to be Provided from General Government Resources	0	0	0	0	0	0	0	0	3,168,269	3,168,269
Total Assets and Other Debits	\$10,358,554	\$498,888	\$145,190	\$618,675	\$139,043	\$2,175,919	\$886,311	\$11,815,198	\$3,313,459	\$29,951,237
Liabilities, Fund Equity and Other Credits:										
Liabilities:										
Accounts Payable	\$65,667	\$25,212	\$0	\$5,190	\$10,132	\$0	\$1,138	\$0	\$0	\$107,339
Accrued Wages Payable	1,242,565	49,561	0	0	50,007	0	0	0	0	1,342,133
Compensated Absences Payable	119,116	0	0	0	17,311	0	0	0	1,083,965	1,220,392
Intergovernmental Payable	265,495	11,631	0	0	36,242	0	0	0	113,559	426,927
Claims Payable	0	0	0	0	0	193,612	0	0	0	193,612
Capital Lease Payable	0	0	0	0	0	0	0	0	231,204	231,204
Interfund Payable	0	314,579	0	0	0	0	0	0	0	314,579
Deferred Revenue	7,447,836	0	0	326,177	6,044	0	0	0	0	7,780,057
Undistributed Monies	0	0	0	0	0	0	1,032	0	0	1,032
Due to Students	0	0	0	0	0	0	63,571	0	0	63,571
Energy Conservation Loan Payable	0	0	0	0	0	0	0	0	1,270,000	1,270,000
Early Retirement Incentive Payable	0	0	0	0	0	0	0	0	614,731	614,731
Total Liabilities	9,140,679	400,983	0	331,367	119,736	193,612	65,741	0	3,313,459	13,565,577
Fund Equity and Other Credits:										
Investment in General Fixed Assets	\$0	\$0	0	0	0	0	0	11,815,198	0	11,815,198
Retained Earnings:										
Reserved for Claims	0	0	0	0	0	1,964,563	0	0	0	1,964,563
Unreserved	0	0	0	0	19,307	17,744	0	0	0	37,051
Fund Balance:										
Reserved for Encumbrances	332,997	95,089	0	186,805	0	0	0	0	0	614,891
Reserved for Prepaid Items	11,522	0	0	0	0	0	0	0	0	11,522
Reserved for Debt Service	0	0	145,190	0	0	0	0	0	0	145,190
Reserved for Capital Maintenance	187,772	0	0	0	0	0	0	0	0	187,772
Reserved for Budget Stabilization	462,430	0	0	0	0	0	0	0	0	462,430
Reserved for Inventory	61,324	0	0	0	0	0	0	0	0	61,324
Reserved for Textbooks & Instructional Material	572,375	0	0	0	0	0	0	0	0	572,375
Reserved for Taxes Unavailable for Appropriation	346,497	0	0	14,437	0	0	0	0	0	360,934
Reserved for Scholarships	0	0	0	0	0	0	69,824	0	0	69,824
Reserved for Future Bus Purchases	35,296	0	0	0	0	0	0	0	0	35,296
Reserved for Principal Endowment	0	0	0	0	0	0	252,860	0	0	252,860
Unreserved:										
Undesignated	(792,338)	2,816	0	86,066	0	0	497,886	0	0	(205,570)
Total Fund Equity and Other Credits	1,217,875	97,905	145,190	287,308	19,307	1,982,307	820,570	11,815,198	0	16,385,660
Total Liabilities, Fund Equity and Other Credits	\$10,358,554	\$498,888	\$145,190	\$618,675	\$139,043	\$2,175,919	\$886,311	\$11,815,198	\$3,313,459	\$29,951,237

See accompanying notes to the combined financial statements.

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types and Similar Trust Funds

For the Fiscal Year Ended June 30, 2001

	-----Governmental Fund Types-----				Fiduciary	Totals
	General	Special Revenue	Debt Service	Capital Projects	Fund Types Expendable Trusts	(Memorandum Only)
Revenues:						
Taxes	\$7,255,292	\$0	\$0	\$320,124	\$0	\$7,575,416
Intergovernmental	6,520,393	482,450	0	185,901	0	7,188,744
Interest	248,707	2,709	0	1,670	50,543	303,629
Tuition and Fees	8,647	0	0	0	0	8,647
Clarroom Materials and Fees	35,033	0	0	0	0	35,033
Extracurricular Activities	0	226,477	0	0	0	226,477
Miscellaneous	18,959	45,910	0	0	86,241	151,110
Total Revenues	14,087,031	757,546	0	507,695	136,784	15,489,056
Expenditures:						
Current:						
Instruction:						
Regular	6,865,744	256,524	0	0	7,264	7,129,532
Special	1,181,944	256,975	0	0	0	1,438,919
Vocational	420,429	0	0	0	0	420,429
Other	27,534	22,375	0	0	0	49,909
Support Services:						
Pupils	841,061	112,781	0	0	0	953,842
Instructional Staff	665,374	212,307	0	0	0	877,681
Board of Education	26,234	0	0	0	0	26,234
Administration	1,205,286	1,885	0	0	0	1,207,171
Fiscal	452,792	0	0	0	0	452,792
Operation and Maintenance of Plant	1,327,105	95	0	0	0	1,327,200
Pupil Transportation	661,071	1,473	0	0	0	662,544
Central	9,964	0	0	0	0	9,964
Operation of Non-Instructional Services	1,457	146,457	0	0	0	147,914
Extracurricular Activities	397,036	147,377	0	0	0	544,413
Capital Outlay	353,770	0	0	457,050	0	810,820
Debt Service:						
Principal Retirement	101,904	0	110,000	0	0	211,904
Interest and Fiscal Charges	21,485	0	70,380	0	0	91,865
Total Expenditures	14,560,190	1,158,249	180,380	457,050	7,264	16,363,133
Excess of Revenues Over (Under) Expenditures	(473,159)	(400,703)	(180,380)	50,645	129,520	(874,077)
Other Financing Sources (Uses):						
Inception of Capital Lease	276,978	0	0	0	0	276,978
Refund of Prior Year Expenditures	50,256	0	0	0	0	50,256
Other Financial Resources	4,312	0	0	0	0	4,312
Operating Transfers In	108,546	79,846	311,938	0	0	500,330
Operating Transfers Out	(543,238)	0	0	0	(7,092)	(550,330)
Total Other Financing Sources (Uses)	(103,146)	79,846	311,938	0	(7,092)	281,546
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(576,305)	(320,857)	131,558	50,645	122,428	(592,531)
Fund Balances (Deficit) at Beginning of Year	1,787,084	418,762	13,632	236,663	375,458	2,831,599
Increase (Decrease) in Reserve for Inventory	7,096	0	0	0	0	7,096
Fund Balances (Deficit) at End of Year	\$1,217,875	\$97,905	\$145,190	\$287,308	\$497,886	\$2,246,164

See accompanying notes to the combined financial statements.

Shelby City School District

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Similar Trust Funds

For the Year Ended June 30, 2001

	-----General Fund-----			-----Special Revenue Funds-----			-----Debt Service Fund-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes	\$7,362,715	\$7,362,715	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tuition	2,090	2,120	30	0	0	0	0	0	0
Transportation Fees	6,527	6,527	0	0	0	0	0	0	0
Intergovernmental	6,509,881	6,509,881	0	640,567	482,450	(158,117)	0	0	0
Investment Income	252,036	252,036	0	2,598	2,709	111	0	0	0
Extracurricular Activities	0	0	0	226,477	226,477	0	0	0	0
Classroom Materials and Fees	35,033	35,033	0	0	0	0	0	0	0
Other	26,389	26,389	0	44,569	44,569	0	0	0	0
Total Revenues	14,194,671	14,194,701	30	914,211	756,205	(158,006)	0	0	0
Expenditures:									
Current:									
Instruction:									
Regular	7,144,545	6,904,223	240,322	(29,745)	314,784	(344,529)	0	0	0
Special	1,143,237	1,199,438	(56,201)	309,891	261,981	47,910	0	0	0
Vocational	416,453	422,375	(5,922)	0	0	0	0	0	0
Adult Continuing Education	0	0	0	0	0	0	0	0	0
Other	65,065	60,825	4,240	0	22,375	(22,375)	0	0	0
Support Services:									
Pupil	649,640	838,820	(189,180)	104,237	117,021	(12,784)	0	0	0
Instructional Staff	983,949	837,472	146,477	405,521	220,994	184,527	0	0	0
Board of Education	30,014	24,364	5,650	0	0	0	0	0	0
Administration	1,308,086	1,262,639	45,447	4,343	4,343	0	0	0	0
Fiscal	469,366	510,376	(41,010)	0	0	0	0	0	0
Operation and Maintenance of Plant	1,452,939	1,391,968	60,971	74,077	95	73,982	0	0	0
Pupil Transportation	837,194	736,528	100,666	1,579	1,579	0	0	0	0
Central	22,113	10,535	11,578	0	0	0	0	0	0
Operation of Non-									
Instructional Services	0	1,857	(1,857)	173,527	163,134	10,393	0	0	0
Extracurricular Activities	391,463	396,275	(4,812)	161,784	156,215	5,569	0	0	0
Capital Outlay	85,830	102,380	(16,550)	52,312	0	52,312	0	0	0
Debt Service:									
Principal Retirement	0	0	0	0	0	0	260,800	260,800	0
Interest and Fiscal Charges	0	0	0	0	0	0	64,770	64,770	0
Total Expenditures	14,999,894	14,700,075	299,819	1,257,526	1,262,521	(4,995)	325,570	325,570	0
Excess of Revenues Over (Under) Expenditures	(805,223)	(505,374)	299,849	(343,315)	(506,316)	(163,001)	(325,570)	(325,570)	0
Other Financing Sources (Uses):									
Refund of Prior Year Expenditu	50,256	50,256	0	0	0	0	0	0	0
Operating Transfer In	108,546	108,546	0	79,846	79,846	0	311,938	311,938	0
Operating Transfer Out	(483,700)	(493,238)	(9,538)	0	0	0	0	0	0
Advances-In	23,800	23,800	0	314,579	314,579	0	0	0	0
Advances-Out	(24,752)	(314,579)	(289,827)	(42,367)	(18,800)	23,567	0	0	0
Total Other Sources (Uses)	(325,850)	(625,215)	(299,365)	352,058	375,625	23,567	311,938	311,938	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,131,073)	(1,130,589)	484	8,743	(130,691)	(139,434)	(13,632)	(13,632)	0
Fund Balances (Deficit) at Beginning of Year	2,398,993	2,398,993	0	424,810	424,810	0	13,632	13,632	0
Prior Year Encumbrances	509,343	509,343	0	85,416	85,416	0	0	0	0
	1,777,263	1,777,747	484	518,969	379,535	(139,434)	0	0	0

See accompanying notes to the combined financial statements.

Exhibit III

----Capital Projects Funds-----			-----Expendable Trust Funds-----			-----Totals (Memorandum Only)-----		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$325,659	\$325,659	\$0	\$0	\$0	\$0	\$7,688,374	\$7,688,374	\$0
0	0	0	0	0	0	2,090	2,120	30
0	0	0	0	0	0	6,527	6,527	0
185,901	185,901	0	0	0	0	7,336,349	7,178,232	(158,117)
1,670	1,670	0	45,536	45,536	0	301,840	301,951	111
0	0	0	0	0	0	226,477	226,477	0
0	0	0	0	0	0	35,033	35,033	0
0	0	0	86,241	86,241	0	157,199	157,199	0
513,230	513,230	0	131,777	131,777	0	15,753,889	15,595,913	(157,976)
0	0	0	7,264	7,264	0	7,122,064	7,226,271	(104,207)
0	0	0	0	0	0	1,453,128	1,461,419	(8,291)
0	0	0	0	0	0	416,453	422,375	(5,922)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	65,065	83,200	(18,135)
0	0	0	0	0	0	753,877	955,841	(201,964)
0	0	0	0	0	0	1,389,470	1,058,466	331,004
0	0	0	0	0	0	30,014	24,364	5,650
0	0	0	0	0	0	1,312,429	1,266,982	45,447
0	0	0	0	0	0	469,366	510,376	(41,010)
0	0	0	0	0	0	1,527,016	1,392,063	134,953
0	0	0	0	0	0	838,773	738,107	100,666
0	0	0	0	0	0	22,113	10,535	11,578
0	0	0	0	0	0	173,527	164,991	8,536
0	0	0	0	0	0	553,247	552,490	757
682,352	682,273	79	0	0	0	820,494	784,653	35,841
0	0	0	0	0	0	260,800	260,800	0
0	0	0	0	0	0	64,770	64,770	0
682,352	682,273	79	7,264	7,264	0	17,272,606	16,977,703	294,903
(169,122)	(169,043)	79	124,513	124,513	0	(1,518,717)	(1,381,790)	136,927
0	0	0	0	0	0	50,256	50,256	0
0	0	0	0	0	0	500,330	500,330	0
0	0	0	(7,092)	(7,092)	0	(490,792)	(500,330)	(9,538)
0	0	0	0	0	0	338,379	338,379	0
0	0	0	0	0	0	(67,119)	(333,379)	(266,260)
0	0	0	(7,092)	(7,092)	0	331,054	55,256	(275,798)
(169,122)	(169,043)	79	117,421	117,421	0	(1,187,663)	(1,326,534)	(138,871)
154,704	154,704	0	373,972	373,972	0	3,366,111	3,366,111	0
98,804	98,804	0	0	0	0	693,563	693,563	0
84,386	84,465	79	491,393	491,393	0	2,872,011	2,733,140	(138,871)

Shelby City School District

Combined Statement of Revenues, Expenses
and Changes in Retained Earnings
All Proprietary Fund Types and Similar Trust Funds

For the Fiscal Year Ended June 30, 2001

	PROPRIETARY FUNDS		FIDUCIARY FUND	Totals (Memorandum Only)
	Enterprise Funds	Internal Service Funds	Non-Expendable Trust	
Operating Revenues:				
Food Service Sales	\$591,037	\$0	\$0	\$591,037
Charges for Services	0	1,097,431	0	1,097,431
Interest on Investments	0	0	23,235	23,235
Contributions and Donations	0	0	500	500
Other Operating Revenues	0	9,088	0	9,088
Total Operating Revenues	591,037	1,106,519	23,735	1,721,291
Operating Expenses:				
Salaries	300,335	0	0	300,335
Fringe Benefits	134,622	0	0	134,622
Purchased Services	35,937	1,222,164	13	1,258,114
Materials and Supplies	49,463	7,588	0	57,051
Cost of Sales	353,557	0	0	353,557
Depreciation	9,183	606	0	9,789
Other Operating Expenses	969	52	6,345	7,366
Total Operating Expenses	884,066	1,230,410	6,358	2,120,834
Operating Income (Loss)	(293,029)	(123,891)	17,377	(399,543)
Non-Operating Revenues (Expenses):				
Federal Donated Commodities	74,231	0	0	74,231
Operating Grants	174,186	27,629	0	201,815
Interest Income	1,045	121,826	0	122,871
Total Non-Operating Revenues (Expenses)	249,462	149,455	0	398,917
Net Income (Loss) before Transfers In	(43,567)	25,564	17,377	(626)
Operating Transfers In	50,000	0	0	50,000
Net Income (Loss)	6,433	25,564	17,377	49,374
Retained Earnings/Fund Balance (Deficit) at Beginning of Year	12,874	1,956,743	305,307	2,274,924
Retained Earnings/Fund Balance (Deficit) at End of Year	19,307	1,982,307	322,684	2,324,298
Total Fund Equity at End of Year	\$19,307	\$1,982,307	\$322,684	\$2,324,298

See accompanying notes to the combined financial statements.

Shelby City School District

Combined Statement of Cash Flows
All Proprietary Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 2001

(See Accountant's Compilation Report)

	PROPRIETARY FUNDS		FIDUCIARY FUND	Totals Memorandum Only
	Enterprise	Internal Service	Nonexpendable Trust	
Cash Flows from Operating Activities:				
Cash Received from Food Services	\$601,514	\$0	\$0	\$601,514
Cash Received from Charges for Services	0	1,097,431	0	1,097,431
Cash Received from Contributions and Donations	0	9,088	500	9,588
Cash Received from Interest on Investments	0	0	22,133	22,133
Cash Payments to Employees for Services	(267,324)	0	0	(267,324)
Cash Payments for Employee Benefits	(162,827)	0	0	(162,827)
Cash Payments to Suppliers for Goods and Services	(354,355)	(1,185,836)	(6,358)	(1,546,549)
Cash for Miscellaneous Expenditures and Receipts	(969)	0	0	(969)
Net Cash Provided by (Used for) Operating Activities	(183,961)	(79,317)	16,275	(247,003)
Cash Flows from Noncapital Financing Activities:				
Operating Grants Received	198,119	27,629	0	225,748
Net Cash Provided by (Used for) Noncapital Financing Activities	198,119	27,629	0	225,748
Cash Flows from Investing Activities:				
Interest on Investments	1,045	121,826	0	122,871
Net Cash Provided by (Used for) Investing Activities	1,045	121,826	0	122,871
Net Increase (Decrease) in Cash and Cash Equivalents	15,203	70,138	16,275	101,616
Cash and Cash Equivalents at Beginning of Year	28,210	2,105,781	271,467	2,405,458
Cash and Cash Equivalents at End of Year	\$43,413	\$2,175,919	\$287,742	\$2,507,074
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	(\$293,029)	(\$123,891)	\$17,377	(\$399,543)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	9,183	606	0	9,789
Donated Commodities Received During Year	74,231	0	0	74,231
Changes in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	10,477	0	(334)	10,143
(Increase)/Decrease in Interest Receivable	0	0	(718)	(718)
(Increase)/Decrease in Investments in Segregated Accounts	0	0	(50)	(50)
(Increase)/Decrease in Inventory Held for Resale	(929)	0	0	(929)
Increase/(Decrease) in Accounts Payable	9,491	0	0	9,491
Increase/(Decrease) in Accrued Wages	3,855	0	0	3,855
Increase/(Decrease) in Compensated Absences Payable	291	0	0	291
Increase/(Decrease) in Intergovernmental Payable	660	0	0	660
Increase/(Decrease) in Deferred Revenue	1,809	0	0	1,809
Increase/(Decrease) in Claims Payable	0	43,968	0	43,968
Total Adjustments	109,068	44,574	(1,102)	152,540
Net Cash Provided by Operating Activities	(\$183,961)	(\$79,317)	\$16,275	(\$247,003)
Nonexpendable Trust Cash Reconciliation to Balance Sheet:				
Trust and Agency Funds per Balance Sheet			\$844,876	
Less Agency Funds			(65,741)	
Less Expendable Trust Fund			(491,393)	
Nonexpendable Trust Fund Cash Per Above			\$287,742	

See accompanying notes to the combined financial statements.

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1854 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 72 square miles. It is located in Richland County, and includes all of the City of Shelby and portions of Sharon, Plymouth, Jackson, Bloomingrove and Franklin Townships. The School District is the 221st largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 96 noncertificated employees and 176 certificated full-time teaching personnel who provide services to 2,353 students and other community members. The School District currently operates six instructional buildings, one administrative building, and one garage.

Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization, or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. For this fiscal year, the School District has implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions". The more significant of the School District's accounting policies are described below.

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

A. Basis of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary fund types and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

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

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

Proprietary Fund Types:

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

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

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

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust, nonexpendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Non-Expendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of the general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the combined balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the combined balance sheet. Proprietary and nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

balance sheet and revenue is recognized. Measurable property taxes as of June 30, 2001, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2001 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the non-expendable trust funds. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Richland County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

increases or decreases in revenue are identified by the School District's Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

Appropriations:

Upon receipt from the County Auditor of an amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual Appropriation Resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The Appropriation Resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

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

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

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2001, investments were limited to common stock donated in 1980 to a nonexpendable trust fund and STAR Ohio.

The School District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2001. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

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

E. 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 could differ from those estimates.

F. Inventory

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 basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years. In proprietary funds improvements are capitalized and depreciated over the remaining useful lives of the related asset, as applicable.

Depreciation of furniture and equipment in proprietary fund types is computed using the straight-line method over estimated useful lives of five to twenty years.

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Reimbursement

Non-Reimbursable Grants

Special Revenue Funds

- Auxiliary Services
- Education Management Information Systems
- Venture Capital
- Entry Year Programs
- Disadvantaged Pupil Impact Aid
- Textbooks/Instructional Materials Subsidy
- Title I
- Title VI
- Title VI-B
- Drug-Free Schools
- Eisenhower Grant
- Professional Development Block Grant

Capital Projects Funds

- School Net
- School Net Plus

Reimbursable Grants

General Fund

- Driver Education

Proprietary Funds

- National School Lunch Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 43 percent of the School District's operating revenue during the 2001 fiscal year.

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as “interfund receivables” and “interfund payables”. Long-term interfund loans are classified as “advances to/from other funds” and are equally offset by a fund balance reserve account, which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

J. 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 School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for employees after 15 years of service with the School District and at least 45 years of age and for employees at least 55 years of age regardless of years of service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles require the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the School District’s debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside by the School District for the purchase of textbooks and to create a reserve for budget stabilization. See Note 16 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, property taxes, budget stabilization, textbook purchases, school bus purchases, prepaid items, advances, scholarships and endowments.

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 revenues and expenditures. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five-year period is presented as reserved. The reserve for endowments signifies the legal restrictions on the use of principal.

N. Interfund Transactions

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

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Accountability:

At June 30, 2001, the Title VI fund had deficit fund balance of \$ 4,235.

Compliance:

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit shall make an expenditure of money unless it has been appropriated. The following fund had expenditures that exceeded appropriations:

Auxiliary Service Funds (Fund 401)	\$ (10,000)
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Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

The following individual function levels had expenditures that exceeded appropriations as found on pages four and five of this report:

General Fund:	
Special Instruction	\$ (56,201)
Vocational Instruction	(5,922)
Pupil Support Services	(189,180)
Fiscal Support Services	(41,010)
Operation of Non-Instructional Services	(1,857)
Extracurricular Activities	(4,812)
Capital Outlay	(16,550)
Operating Transfers Out	(9,538)
Special Revenue:	
Regular Instruction	(344,529)
Other	(22,375)
Pupil	(12,784)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget-Actual (Non-GAAP Budgetary Basis) All Governmental Fund Types are 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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

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Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
Budget Basis	\$ (1,130,589)	\$ (130,691)	\$ (13,632)	\$ (169,043)	\$ 117,421
Adjustments for:					
Revenue Accruals	149,820	(313,238)	-	(5,535)	5,007
Expenditure Accruals	14,163	2,771	-	33,228	-
Encumbrances	<u>390,301</u>	<u>120,301</u>	<u>145,190</u>	<u>191,995</u>	<u>-</u>
GAAP Basis	<u>\$ (576,305)</u>	<u>\$ (320,857)</u>	<u>\$ 131,558</u>	<u>\$ 50,645</u>	<u>\$ 122,428</u>

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts. Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities;

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year end, the School District had \$160 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$1,647,002 and the bank balance was \$2,495,800. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$2,395,800 was collateralized by securities pledged on the School District's deposits.

Investments: The School District's investments are categorized below to give an indication of the level of holding risk assumed by the School District at fiscal year end. Category one includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category two includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the School District's name. Category three includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

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	<u>Not</u> <u>Categorized</u>	<u>Category</u> <u>A</u>	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Common Stock	\$ -	\$34,400	\$ 34,400	\$ 34,400
STAR Ohio	<u>4,502,252</u>	<u>-</u>	<u>4,502,252</u>	<u>4,502,252</u>
Total Investments	<u>\$4,502,252</u>	<u>\$34,400</u>	<u>\$4,536,652</u>	<u>\$4,536,652</u>

Net increase in the fair value of applicable investments during fiscal year 2001 per GASB Statement No. 31 is as follows:

Fair value at June 30, 2001	\$34,400
Fair value at June 30, 2000	<u>(33,350)</u>
Increase in fair value of investments during fiscal year 2001	<u>\$ 1,050</u>

A reconciliation between classifications of "Equity of pooled cash and cash equivalents" and "Investments" on the Combined Balance Sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 are as follows:

	<u>Equity in pooled</u> <u>cash and cash</u> <u>equivalents</u>	<u>Investments</u>
Per GASB Statement No. 9	\$ 6,183,814	\$
Cash on Hand	(160)	-
Investment in STAR Ohio	(4,502,252)	4,502,252
Common Stock	<u>(34,400)</u>	<u>34,400</u>
Per GASB Statement No. 3	<u>\$ 1,647,002</u>	<u>\$ 4,536,652</u>

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure the repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 105 percent of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35

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percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Richland County. The County Auditor periodically advances to the School District its portion of the tax collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2001 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, tangible personal property, and public utility taxes, which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. 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 at June 30, 2001, was \$346,497 in the General Fund and \$14,437 in the Capital Projects Fund.

The assessed values upon which fiscal year 2001 taxes were collected are:

	<u>2001 First- Half Collections</u>		<u>2000 Second- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$168,308,420	72%	\$167,018,870	73%
Public Utility	-	0%	11,783,650	5%
Tangible Personal Property	<u>67,455,699</u>	<u>28%</u>	<u>50,009,690</u>	<u>22%</u>
Total Assessed Value	<u>\$235,764,119</u>	<u>100%</u>	<u>\$228,812,210</u>	<u>100%</u>
 Tax rate per \$1,000 of assessed valuation	 \$50.60		 \$50.60	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<u>Amount</u>
General Fund	
Taxes	\$7,794,333
Accounts	1,564
Intergovernmental	10,512
Special Revenue Fund	

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Accounts	653
Capital Projects Fund	
Taxes	340,614
Enterprise Fund	
Accounts	1,099
Trust and Agency Fund	
Accounts	334
Accrued Interest	<u>7,701</u>
Total Receivables	<u>\$8,156,810</u>

NOTE 8 - FIXED ASSETS

A summary of the proprietary funds' fixed assets at June 30, 2001, follows:

<u>Asset Category</u>	<u>Balance at</u> <u>6/30/01</u>
Furniture and equipment	\$202,506
Less accumulated depreciation	<u>(117,054)</u>
Total	<u>\$ 85,452</u>

A summary of the changes in general fixed assets during fiscal year 2001 is as follows:

<u>Asset Category</u>	<u>Balance at</u> <u>7/01/00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/01</u>
Land and Improvements	\$799,767	\$ -	\$ -	\$ 799,767
Buildings and Improvements	6,577,949	251,603	-	6,829,552
Furniture and Equipment	2,526,573	606,803	-	3,133,376
Vehicles	<u>998,304</u>	<u>54,199</u>	-	<u>1,052,503</u>
Totals	<u>\$10,902,593</u>	<u>\$912,605</u>	<u>\$ -</u>	<u>\$11,815,198</u>

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 1,000	\$42,625,350
Inland Marine Coverage	100	100,000
Electronic Data Processing	100	268,390
Boiler and Machinery	1,500	1,000,000
Automobile Liability	250	1,000,000
Uninsured Motorists	250	500,000
General Liability	3,000	1,000,000/5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. For fiscal year 2001, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an

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insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical, life, and dental insurance are offered to employees through a self-insurance internal service fund. The claims liability of \$193,612 reported in the internal service fund at June 30, 2001 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2000	\$232,164	\$1,075,560	\$1,158,080	\$149,644
2001	\$149,644	\$1,178,196	\$1,134,228	\$193,612

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a public available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3771, or by calling (614)-227-4090.

Plan members are required to contribute 9.3 percent of their annual-covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions to STRS for the years ended June 30, 2001, 2000 and 1999 were \$1,090,908, \$1,194,711, and \$1,130,853, respectively; 82.87 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$189,576 is recorded as a liability within respective funds and the general long-term obligation account group.

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B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual-covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual-covered payroll; 5.55 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$313,392, \$331,669, and \$305,165, respectively; 39.51 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$190,692 is recorded as a liability within respective funds and the general long-term obligation account group.

C. Social Security System

All employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired noncertificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute is 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 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 the coverage paid from STRS funds shall be included in the employer's contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$350,649 for the fiscal year ended June 30, 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

For this fiscal period, employer contributions to fund health care benefits were 8.45 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 2001, the minimum pay had been established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$235,649 for the fiscal year ended June 30, 2001.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 243 days for classified and 240 days for certified personnel. Upon retirement, payment is made from accrued, but unused sick leave credit for classified personnel at a rate on one-fourth (1/4) of the first 160 days and one-third (1/3) of any unused sick leave over 160 days. For certified personnel, payment is made for one-fourth (1/4) of any unused sick leave.

In addition, certified personnel are provided with a retirement incentive equal to two (2) days severance pay for each year of service the School District, not to exceed forty-five (45) days, provided the employee has at least ten (10) years service to the School District.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through the Trans-General Life Insurance Company.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2000 were as follows:

	Balance at <u>07/01/00</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>06/30/01</u>
Energy Conservation Bonds	\$ 1,380,000	\$ -	\$ 110,000	\$ 1,270,000
Computer Purchase Loan	56,130	-	56,130	-
Capital Lease	-	276,978	45,774	231,204

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Intergovernmental Payable	116,166	113,559	116,166	113,559
Compensated Absences	1,214,137	-	130,172	1,083,965
Retirement Incentive	<u>661,014</u>	<u>-</u>	<u>46,283</u>	<u>614,731</u>
 Total Long Term Obligations	 <u>\$ 3,427,447</u>	 <u>\$ 390,537</u>	 <u>\$ 504,525</u>	 <u>\$ 3,313,459</u>

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

Computer Purchase Loan - On June 22, 2000, the School District purchased computers on credit from CIP Group.

The capital lease was paid from the General Fund. Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

The School District's voted legal debt margin was \$23,630,422 with an unvoted debt margin of \$11,842,217 at June 30, 2001.

The following is a schedule of the future minimum payments for the energy conservation bonds:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 110,000	\$ 64,770	\$ 174,770
2003	110,000	59,160	169,160
2004	105,000	53,550	158,550
2005	105,000	48,195	153,195
2006	105,000	42,840	147,840
2007 - 2011	525,000	133,885	658,885
2012 - 2015	<u>210,000</u>	<u>16,065</u>	<u>226,065</u>
Total	<u>\$1,270,000</u>	<u>\$418,465</u>	<u>\$1,688,465</u>

NOTE 14 - 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 Combined Financial Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Fund Types and Similar Trust Funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Asset Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long Term Obligations Account Group. Principal payments in the 2000 fiscal year totaled \$45,774. This amount is reflected as "Debt Service Principal Retirement" in the General Fund.

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The following is an analysis of equipment leased under capital leases as of June 30, 2001:

	General Fixed Assets
Equipment (copiers)	\$ 238,754
Equipment (Computers)	<u>38,224</u>
Carrying Value	<u>\$276,978</u>

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, 2001:

<u>June 30 Year Ending</u>	<u>Capital Lease Liability</u>
2002	72,925
2003	72,925
2004	58,093
2005	58,093
2006	<u>8,966</u>
Total Minimum Lease Payments	271,002
Less: Amount Representing Interest	<u>(39,798)</u>
Present Value of Future Minimum Lease Payment	<u>\$231,204</u>

The District does not have capitalized lease obligations after fiscal year 2002.

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 314,579	\$ -
Special Revenue	<u>-</u>	<u>314,579</u>
Total All Funds	<u>\$ 314,579</u>	<u>\$ 314,579</u>

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are disclosed in the general purpose financial statements as "Interfund Receivable/Payable."

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NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Shelby City School District as of and for the fiscal year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 561,997	\$ 29,040	\$ 591,037
Operating Expenses	854,067	29,999	884,066
Depreciation Expense	9,183	-	9,183
Operating Income (Loss)	(292,070)	(959)	(293,029)
Donated Commodities	74,231	-	74,231
Grants	174,186	-	174,186
Interest	1,045	-	1,045
Net Income (Loss)	7,392	(959)	6,433
Fixed Asset Additions	-	-	-
Net Working Capital	13,850	-	13,850
Total Assets	139,043	-	139,043
Total Liabilities	119,736	-	119,736
Total Equity	19,307	-	19,307

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, maintenance reserve, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Maintenance Reserve</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2001	\$ 294,885	\$ -	\$ 343,557	\$ 638,442
Current Year Set-aside Requirement	356,619	356,619	118,873	832,111
Qualifying Disbursements	<u>(79,129)</u>	<u>(168,847)</u>	<u>-</u>	<u>(247,976)</u>
Total	<u>\$ 572,375</u>	<u>\$ 187,772</u>	<u>\$ 462,430</u>	<u>\$1,222,577</u>
Cash Balance Carried Forward to FY 2002	<u>\$ 572,375</u>	<u>\$ 187,772</u>	<u>\$ 462,430</u>	<u>\$1,222,577</u>
Total Restricted Assets				<u>\$1,222,577</u>

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

Amounts of offsets and qualifying disbursements presented in the table were limited to those necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements during the year, these extra amounts may not be used to reduce the set-aside requirements of future years, and are therefore not presented.

NOTE 18 - JOINT VENTURE WITHOUT EQUITY INTEREST

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

NOTE 19 - JOINTLY GOVERNED ORGANIZATION

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

NOTE 20 - INSURANCE PURCHASING POOL

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

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

Shelby City School District
Richland County, Ohio
Notes to the Combined Financial Statements
June 30, 2001

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2001.

B. Property Tax Revenues

The School District received notice that a large corporation within its District has filed for Chapter 11 bankruptcy protection. This bankruptcy could adversely affect the District's property tax revenue in future years. The actual amount of possible loss is not determinable at this time.

NOTE 22 - STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of September 14, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

As of the date of these financial statements, the SCHOOL DISTRICT is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(NON-GAAP BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Federal Grantor/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER
U. S. DEPARTMENT OF EDUCATION		
<u>Passed Through Ohio Department of Education:</u>		
Education Consolidation & Improvement Act - Title I		
(572-9001)	84.010	C1-S1-01
(572-9100)	84.010	C1-S1-00
Education of all Handicapped (Special Education Cluster)		
Title VI-B		
(516-9099)	84.027	6B-SF-01P
(516-9200)	84.027	6B-SF-00P
Drug Free Schools, IASA Title IV		
(584-9099)	84.186	DR-S1-01
(584-9098)	84.186	DR-S1-98
(584-9200)	84.186	DR-S1-00
Eisenhower, IASA Title II		
(514-9200)	84.281	MS-S1-01
Innovative Education, IASA Title VI		
(573-9001)	84.298	C2-S1-01
(573-9099)	84.298	C2-S1-99
(573-9200)	84.298	C2-S1-00
Comprehensive School Reform		
(599-9099)	84.332	RF-S1-99
(599-9200)	84.332	RF-S1-00
Reducing Class Size		
(599-9001)	84.340	CR-S1-01
(599-9201)	84.340	CR-S1-00
Total U. S. Department of Education		
<u>U. S. DEPARTMENT OF AGRICULTURE</u>		
<u>Passed Through Ohio Department of Education:</u>		
Child Nutrition Cluster:		
National School Lunch Program		
(006-0000)	10.555	PU-00-01 PU-00-00 PU-00-01 PU-00-00
Special Milk Program	10.556	
Food Distribution Program	10.550	N/A
Total U. S. Department of Agriculture (Child Nutrition Cluster)		
Total Federal Financial Assistance		
The accompanying notes are an integral part of this schedule.		

PROGRAM BALANCE 6/30/00	FEDERAL RECEIPTS	FEDERAL DISBURSEMENTS	ADVANCES IN (OUT)	PROGRAM BALANCE 6/30/01
\$ -	\$ 39,293	\$ 192,295	\$ 167,511	\$ 14,509
<u>2,926</u>	<u>-</u>	<u>2,704</u>	<u>-</u>	<u>222</u>
2,926	39,293	194,999	167,511	14,731
-	41,590	88,888	97,042	49,744
<u>-</u>	<u>38,790</u>	<u>44,771</u>	<u>(7,500)</u>	<u>(13,481)</u>
-	80,380	133,659	89,542	36,263
-	2,912	4,339	6,794	5,367
-	-	400	-	(400)
<u>4,349</u>	<u>-</u>	<u>4,420</u>	<u>-</u>	<u>(71)</u>
4,349	2,912	9,159	6,794	4,896
-	14,950	10,170	(4,651)	129
<u>-</u>	<u>14,950</u>	<u>10,170</u>	<u>(4,651)</u>	<u>129</u>
-	2,296	11,185	10,458	1,569
-	1,682	(43)	-	1,725
<u>95</u>	<u>-</u>	<u>2,024</u>	<u>(5,600)</u>	<u>(7,529)</u>
95	3,978	13,166	4,858	(4,235)
7,064	-	6,867	-	197
<u>15,861</u>	<u>-</u>	<u>60,540</u>	<u>44,679</u>	<u>-</u>
22,925	-	67,407	44,679	197
-	13,671	38,409	31,898	7,160
<u>339</u>	<u>-</u>	<u>339</u>	<u>-</u>	<u>-</u>
339	13,671	38,748	31,898	7,160
30,634	155,184	467,308	340,631	59,141
-	103,457	103,457	-	-
-	27,487	27,487	-	-
-	46,595	46,595	-	-
-	12,502	12,502	-	-
-	87	87	-	-
<u>-</u>	<u>76,040</u>	<u>76,040</u>	<u>-</u>	<u>-</u>
-	266,168	266,168	-	-
<u>\$ 30,634</u>	<u>\$ 421,352</u>	<u>\$ 733,476</u>	<u>\$ 340,631</u>	<u>\$ 59,141</u>

SHELBY CITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001

(1) Significant Accounting Policies:

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

(2) Food Distribution:

Non-monetary assistance is reported in the Schedule at the fair market value of food commodities received and disbursed. Federal award monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.

REICHERT & ASSOCIATES, CPA'S

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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

We have audited the financial statements of Shelby City School District as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated September 14, 2001. 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 Shelby City School 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported management in a separate letter dated September 14, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby City School 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 over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we did note other matters involving the internal control over financial reporting that we have reported to management of Shelby City School District in a separate letter dated September 14, 2001.

This report is intended 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.

September 14, 2001
Findlay, Ohio

**REICHERT & ASSOCIATES, CPA'S
CERTIFIED PUBLIC ACCOUNTANTS**

REICHERT & ASSOCIATES, CPA'S

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Findlay, Ohio 45840
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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 Schools

Compliance

We have audited the compliance of Shelby City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001. Shelby City School 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 Shelby City School 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 Shelby City School 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 Shelby City School District's compliance with those requirements.

In our opinion, Shelby City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001.

Internal Control Over Compliance

The management of Shelby City School 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 Shelby City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk the 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. However, we noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Shelby City School District
Report of Independent Accountants on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133
Page -2-

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.

September 14, 2001
Findlay, Ohio

REICHERT & ASSOCIATES, CPA'S
CERTIFIED PUBLIC ACCOUNTANTS

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
June 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS

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

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

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE.

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

STATUS OF PRIOR AUDIT CITATIONS

The prior audit report for the period ending June 30, 2001 included various citations and recommendations. Each of these citations and recommendations have either been satisfied by correction, or are reflected in the appropriate section of this report or management letter.

Findings for Recovery

Status

None.

<u>Citations</u>	<u>Status</u>	<u>Explanation if not fully Implemented</u>
1. Section 5705.41(B), Revised Code, states no subdivision shall make an expenditure of money unless it has been appropriated. Various funds had expenditures which exceeded approved appropriations at June 30, 2000.	Corrected	N/A
2. Section 5705.412, Rev. Code requires that no school district is to adopt any appropriation, make any contract, give any order to expend money or increase salary schedules during any school year without attaching a 412 certificate. The district did not execute a 412 certificate when entering into contracts for the purchase of a school bus or an increase in appropriations.	Corrected	N/A
3. Section 5705.38, Ohio Rev. Code states that an annual appropriation measure on October 1 of each year. Annual appropriation measure passed on October 5, 2000.	Partially corrected	Annual appropriation measure passed October 12, 2001. This non-compliance has been moved to Management letter.
4. Section 5705.39, Ohio Rev. Code states that total appropriations from each fund should not exceed total estimated revenue. Several funds had appropriations that exceeded estimated revenues.	Partially corrected	Management has substantially corrected compliance problem, and this non-compliance has been moved to the management letter.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
NOVEMBER 8, 2001**