

Nelsonville-York City School District

Athens County, Ohio

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004



BALESTRA, HARR & SCHERER
CERTIFIED PUBLIC ACCOUNTANTS

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**Auditor of State
Betty Montgomery**

Board of Education
Nelsonville-York City School District
Two Buckeye Dr.
Nelsonville, OH 45764

We have reviewed the Independent Auditor's Report of the Nelsonville-York City School District, Athens County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

April 14, 2005

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*Nelsonville-York City School District
Athens County, Ohio*

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Nelsonville–York CSD
Two Buckeye Drive
Nelsonville, Ohio 45764

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

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 basic 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparisons for the General and Title I Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

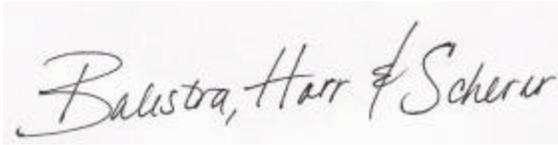
In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board
Nelsonville-York City School District
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.
February 14, 2005

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The discussion and analysis of the Nelsonville-York City School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

- ▶ The assets of Nelsonville-York City School District exceeded its liabilities at June 30, 2004 by \$10,776,899. This balance was comprised of a \$8,724,070 balance in capital assets net of related debt and net asset amounts of \$1,320,957 restricted for specific purposes and a balance of \$731,872 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$391,444, which represents a 3.77 percent increase from 2003.
- ▶ General revenues accounted for \$9,939,116 or 81.53 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,252,316 or 18.47 percent of total revenues of \$12,191,432.
- ▶ The District had \$11,799,988 in expenses related to governmental activities; only \$2,252,316 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$9,939,116 were used to provide for these programs.
- ▶ The District recognizes three major governmental funds: the General, Title I and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$8,677,320 in revenues and \$8,934,821 in expenditures in fiscal year 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Nelsonville-York City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some item that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's three major governmental funds are the General, Title I and Bond Retirement Funds.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of two categories: governmental and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

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

Fiduciary Funds

The District's fiduciary funds consist of a private purpose trust fund and an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Private purpose trust funds are held in a trustee capacity for individuals, private organizations, or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2004 compared to fiscal year 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$5,891,338	\$5,321,363
Capital Assets, Net	10,869,070	10,783,934
<i>Total Assets</i>	<u>16,760,408</u>	<u>16,105,297</u>
<u>Liabilities:</u>		
Long-Term Liabilities	2,893,935	2,975,818
Other Liabilities	3,089,574	2,744,024
<i>Total Liabilities</i>	<u>5,983,509</u>	<u>5,719,842</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	8,724,070	8,548,934
Restricted	1,320,957	852,366
Unrestricted	731,872	984,155
<i>Total Net Assets</i>	<u>\$10,776,899</u>	<u>\$10,385,455</u>

Current and other assets increased \$569,975 from fiscal year 2003 due to an increase in cash and cash equivalents held by the District. Capital assets increased by \$85,136 as a result of capital expenditures for building improvements.

Current (other) liabilities increased \$345,550 as the result of an increase in accounts payable in the General Fund.

Long-term liabilities decreased \$81,883 due to the retirement of principal on debt and the change in compensated absences.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The District's smallest portion of net assets is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

The remaining balance of \$1,320,957 is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2
Changes in Net Assets

	<u>Governmental Activities 2004</u>
<u>Revenues:</u>	
<i>Program Revenue:</i>	
Charges for Services and Sales	\$166,764
Operating Grants and Contributions	1,600,600
Capital Grants and Contributions	484,952
<i>General Revenue:</i>	
Property Taxes	2,185,918
Unrestricted Grants and Entitlements	7,624,195
Gain on Sale of Capital Assets	270
Investment Earnings	28,339
Miscellaneous	<u>100,394</u>
<i>Total Revenues</i>	<u>12,191,432</u>
<u>Expenses:</u>	
<i>Program Expenses:</i>	
<i>Instruction:</i>	
Regular	4,919,171
Special	1,288,271
Vocational	66,497

(Continued)

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Table 2
Changes in Net Assets

	<u>2004</u>
<i>Support Services:</i>	
Pupils	338,490
Instructional Staff	774,445
Board of Education	49,088
Administration	1,166,927
Fiscal	258,916
Operation and Maintenance of Plant	1,233,285
Pupil Transportation	829,479
Central	1,960
<i>Operation of Non-Instructional Services:</i>	
Food Service	502,467
Other	41,880
Extracurricular Activities	203,235
Interest and Fiscal Charges	<u>125,877</u>
<i>Total Expenses</i>	<u>11,799,988</u>
<i>Change in Net Assets</i>	391,444
Net Assets – Beginning of Year	<u>10,385,455</u>
Net Assets – End of Year	<u><u>\$10,776,899</u></u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration and Pupil Transportation. These programs account for 79.98 percent of the total governmental activities. Regular Instruction, which accounts for 41.69 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 10.92 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 10.45 percent of the total, represents costs associated with the operating and maintaining the District's facilities. Administration, which represents 9.89 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation which represents 7.03 percent of the total cost, represents costs associated with providing transportation services for students between home and school and to school activities.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 80.47 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 17.03 percent and intergovernmental revenue made up 80.43 percent of the total revenue for the governmental funds in fiscal year 2004.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2004, the District received \$6,261,709 through the State's foundation program, which represents 53.79 percent of the total revenue for the governmental funds. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 53.17 percent of governmental program expenses. Support services expenses make up 39.43 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to fiscal year 2003 are not available.

Table 3
Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>
<i>Program Expenses:</i>		
Instruction	\$6,273,939	\$4,684,565
Support Services	4,652,590	4,429,472
Operation of Non-Instructional Services	544,347	139,904
Extracurricular Activities	203,235	167,854
Interest and Fiscal Charges	125,877	125,877
Total Expenses	<u>\$11,799,988</u>	<u>\$9,547,672</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$11,715,358 and expenditures and other financing uses of \$11,964,872.

Total governmental funds fund balance decreased by \$249,514. The decrease in fund balance for the year was most significant in the General Fund, a decrease of \$331,835 reflecting expenditures for general operations exceeded revenue received. A decrease of \$101,900 in the Title I Fund is the result of a decrease in intergovernmental receivables of \$101,472.

The District should remain stable in fiscal years 2005 through 2007. However, projections beyond fiscal year 2007 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2004, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$8,608,862 representing a \$662,662 increase from the original budget estimates of \$7,946,200. The final budget reflected an 8.33 percent increase from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$9,359,063 representing an increase of \$111,749 from the original budget expenditures of \$9,247,314. The final budget reflected a 1.21 percent increase from the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$16.8 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$5.9 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2004

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$105,964	\$105,964
<i>Depreciable Capital Assets:</i>		
Land Improvements	590,600	533,350
Buildings and Improvements	12,335,915	11,875,609
Furniture, Fixtures and Equipment	2,623,124	2,484,022
Vehicles	1,159,071	1,103,458
<i>Total Capital Assets</i>	<u>16,814,674</u>	<u>16,102,403</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	(289,657)	(271,685)
Buildings and Improvements	(3,172,598)	(2,801,359)
Furniture, Fixtures and Equipment	(1,877,481)	(1,723,158)
Vehicles	(605,868)	(522,267)
<i>Total Accumulated Depreciation</i>	<u>(5,945,604)</u>	<u>(5,318,469)</u>
Capital Assets, Net	<u>\$10,869,070</u>	<u>\$10,783,934</u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2004, the District had \$2,152,958 in general obligation debt outstanding with \$102,958 due within one year. Table 5 summarizes the District's loan and bonds outstanding for fiscal year 2004 compared to fiscal year 2003.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2004	2003
Asbestos Removal Loan	\$7,958	\$26,595
General Obligation Bonds	2,145,000	2,235,000
Total	\$2,152,958	\$2,261,595

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Nelsonville-York City School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

As indicated in the preceding financial information, the District relies on the State's foundation program for over half of their funding. In the spring of 2003, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2003 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court will have two new Justices beginning in calendar year 2004 and the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

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

The State Legislature has also made several significant changes impacting local taxes:

In 2004 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
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Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2003 through 2006; after this a phase out formula would begin.

The Nelsonville-York City School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural and other real property contributes 85 percent of the District's real estate valuation.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Sandi Hurd, Treasurer of Nelsonville-York City School Board of Education, 2 Buckeye Drive, Nelsonville, Ohio 45764.

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NELSONVILLE-YORK CITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,074,267
Property Taxes Receivable	2,293,404
Accounts Receivable	19,341
Intergovernmental Receivable	390,313
Prepaid Items	27,040
Inventory Held for Resale	1,319
Materials and Supplies Inventory	1,613
<i>Restricted Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	84,041
Nondepreciable Capital Assets	105,964
Depreciable Capital Assets, Net	<u>10,763,106</u>
<i>Total Assets</i>	<u>16,760,408</u>
<u>Liabilities:</u>	
Accounts Payable	311,499
Accrued Wages and Benefits	733,090
Intergovernmental Payable	359,723
Accrued Interest Payable	7,754
Deferred Revenue	1,677,508
<i>Long-Term Liabilities:</i>	
Due within One Year	230,432
Due in More Than One Year	<u>2,663,503</u>
<i>Total Liabilities</i>	<u>5,983,509</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	8,724,070
<i>Restricted for:</i>	
Capital Outlay	320,905
Debt Service	781,646
Other Purposes	218,406
Unrestricted	<u>731,872</u>
<i>Total Net Assets</i>	<u><u>\$10,776,899</u></u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$4,919,171	\$0	\$613,482	\$484,952
Special	1,288,271	0	490,940	0
Vocational	66,497	0	0	0
<i>Support Services:</i>				
Pupils	338,490	0	0	0
Instructional Staff	774,445	0	165,827	0
Board of Education	49,088	0	0	0
Administration	1,166,927	0	46,448	0
Fiscal	258,916	0	0	0
Operation and Maintenance of Plant	1,233,285	0	10,843	0
Pupil Transportation	829,479	0	0	0
Central	1,960	0	0	0
<i>Operation of Non-Instructional Services:</i>				
Food Service	502,467	131,383	252,842	0
Other	41,880	0	20,218	0
Extracurricular Activities	203,235	35,381	0	0
Interest and Fiscal Charges	125,877	0	0	0
<i>Total Governmental Activities</i>	\$11,799,988	\$166,764	\$1,600,600	\$484,952

General Revenues:

Property Taxes Levied for:

General Purposes
 Debt Service
 Classroom Facilities Maintenance
 Grants and Entitlements not Restricted to Specific Programs
 Investment Earnings
 Gain on Sale of Capital Assets
 Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year - As Restated (See Note 3)

Net Assets at End of Year

See accompanying notes to the basic financial statements.

Net (Expense)
Revenue and
Changes in
Net Assets

Governmental
Activities

(\$3,820,737)
(797,331)
(66,497)

(338,490)
(608,618)
(49,088)
(1,120,479)
(258,916)
(1,222,442)
(829,479)
(1,960)

(118,242)
(21,662)
(167,854)
(125,877)

(9,547,672)

1,821,124
327,560
37,234
7,624,195
28,339
270
100,394

9,939,116

391,444

10,385,455

\$10,776,899

NELSONVILLE-YORK CITY SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Title I	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$1,799,613	\$55,124	\$703,749	\$515,781	\$3,074,267
Property Taxes Receivable	1,938,752	0	316,148	38,504	2,293,404
Accounts Receivable	14,903	0	0	4,438	19,341
Intergovernmental Receivable	0	336,015	0	54,298	390,313
Interfund Receivable	51,400	0	0	0	51,400
Prepaid Items	27,040	0	0	0	27,040
Inventory Held for Resale	0	0	0	1,319	1,319
Materials and Supplies Inventory	1,586	0	0	27	1,613
<i>Restricted Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	84,041	0	0	0	84,041
<i>Total Assets</i>	<u>\$3,917,335</u>	<u>\$391,139</u>	<u>\$1,019,897</u>	<u>\$614,367</u>	<u>\$5,942,738</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$263,045	\$2,988	\$0	\$45,466	\$311,499
Accrued Wages and Benefits	558,271	76,991	0	97,828	733,090
Intergovernmental Payable	152,846	11,735	0	24,224	188,805
Interfund Payable	0	0	0	51,400	51,400
Deferred Revenue	1,815,506	336,015	293,610	90,298	2,535,429
Compensated Absences Payable	68,564	0	0	0	68,564
<i>Total Liabilities</i>	<u>2,858,232</u>	<u>427,729</u>	<u>293,610</u>	<u>309,216</u>	<u>3,888,787</u>
<u>Fund Balances:</u>					
Reserved for Encumbrances	9,009	7,791	0	13,907	30,707
Reserved for Property Taxes	123,246	0	22,538	2,504	148,288
Reserved for Set-Asides	84,041	0	0	0	84,041
<i>Unreserved, Undesignated, Reported in:</i>					
General Fund	842,807	0	0	0	842,807
Special Revenue Funds	0	(44,381)	0	(21,556)	(65,937)
Debt Service Fund	0	0	703,749	0	703,749
Capital Projects Funds	0	0	0	310,296	310,296
<i>Total Fund Balances</i>	<u>1,059,103</u>	<u>(36,590)</u>	<u>726,287</u>	<u>305,151</u>	<u>2,053,951</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,917,335</u>	<u>\$391,139</u>	<u>\$1,019,897</u>	<u>\$614,367</u>	<u>\$5,942,738</u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances	\$2,053,951
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,869,070
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:	
Property taxes	467,608
Intergovernmental	<u>390,313</u>
Total receivables that are not reported in the funds	857,921
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(170,918)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Asbestos removal loan	(7,958)
General obligation bonds	(2,145,000)
Accrued interest	(7,754)
Compensated absences	<u>(672,413)</u>
Total liabilities that are not reported in the funds	<u>(2,833,125)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$10,776,899</u></u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Title I	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$1,648,688	\$0	\$300,046	\$33,561	\$1,982,295
Intergovernmental	6,959,831	467,552	54,023	1,880,786	9,362,192
Interest	27,644	0	0	695	28,339
Extracurricular Activities	0	0	0	35,381	35,381
Gifts and Donations	0	0	0	500	500
Customer Sales and Services	0	0	0	131,383	131,383
Miscellaneous	41,157	0	0	59,237	100,394
<i>Total Revenues</i>	<u>8,677,320</u>	<u>467,552</u>	<u>354,069</u>	<u>2,141,543</u>	<u>11,640,484</u>
<u>Expenditures:</u>					
<i>Current:</i>					
<i>Instruction:</i>					
Regular	3,822,889	24,262	0	766,954	4,614,105
Special	826,373	389,441	0	28,721	1,244,535
Vocational	64,057	0	0	0	64,057
<i>Support Services:</i>					
Pupils	329,916	0	0	921	330,837
Instructional Staff	393,532	90,623	0	245,517	729,672
Board of Education	49,088	0	0	0	49,088
Administration	1,007,321	57,467	0	106,651	1,171,439
Fiscal	239,763	2,220	7,869	2,646	252,498
Operation and Maintenance of Plant	1,250,336	0	0	21,373	1,271,709
Pupil Transportation	743,654	796	0	483	744,933
Central	1,960	0	0	0	1,960
Operation of Non-Instructional Services	1,059	5,556	0	516,144	522,759
Extracurricular Activities	143,732	0	0	48,030	191,762
Capital Outlay	61,141	0	0	405,111	466,252
<i>Debt Service:</i>					
Principal Retirement	0	0	108,637	0	108,637
Interest and Fiscal Charges	0	0	126,025	0	126,025
<i>Total Expenditures</i>	<u>8,934,821</u>	<u>570,365</u>	<u>242,531</u>	<u>2,142,551</u>	<u>11,890,268</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(257,501)</u>	<u>(102,813)</u>	<u>111,538</u>	<u>(1,008)</u>	<u>(249,784)</u>
<u>Other Financing Sources (Uses):</u>					
Proceeds from the Sale of Capital Assets	270	0	0	0	270
Transfers In	0	913	18,637	55,054	74,604
Transfers Out	(74,604)	0	0	0	(74,604)
<i>Total Other Financing Sources (Uses)</i>	<u>(74,334)</u>	<u>913</u>	<u>18,637</u>	<u>55,054</u>	<u>270</u>
<i>Net Change in Fund Balances</i>	<u>(331,835)</u>	<u>(101,900)</u>	<u>130,175</u>	<u>54,046</u>	<u>(249,514)</u>
<i>Fund Balances at Beginning of Year - As Restated (See Note 3)</i>	<u>1,390,938</u>	<u>65,310</u>	<u>596,112</u>	<u>251,105</u>	<u>2,303,465</u>
<i>Fund Balances at End of Year</i>	<u>\$1,059,103</u>	<u>(\$36,590)</u>	<u>\$726,287</u>	<u>\$305,151</u>	<u>\$2,053,951</u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$249,514)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 85,136

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

Property taxes	203,623
Intergovernmental	347,055
	550,678

Total revenues not reported in the funds 550,678

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 108,637

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditures is reported when due. 148

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	(633)
Increase in intergovernmental payables	(103,008)
	(103,641)

Total expenditures not reported in the funds (103,641)

Change in Net Assets of Governmental Activities \$391,444

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property Taxes	\$1,511,200	\$1,603,368	\$1,603,368	\$0
Intergovernmental	6,325,000	6,959,831	6,959,831	0
Interest	50,000	27,644	27,644	0
Miscellaneous	60,000	18,019	26,463	8,444
<i>Total Revenues</i>	<u>7,946,200</u>	<u>8,608,862</u>	<u>8,617,306</u>	<u>8,444</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,907,368	4,008,789	3,811,391	197,398
Special	934,925	840,458	799,602	40,856
Vocational	61,650	67,650	63,829	3,821
<i>Support Services:</i>				
Pupils	338,252	349,102	342,014	7,088
Instructional Staff	384,857	406,281	392,256	14,025
Board of Education	58,950	50,595	49,522	1,073
Administration	938,557	1,027,332	1,003,056	24,276
Fiscal	279,437	264,561	234,149	30,412
Operation and Maintenance of Plant	1,425,888	1,256,215	1,082,725	173,490
Pupil Transportation	755,715	822,915	748,741	74,174
Central	2,715	2,715	960	1,755
Operation of Non-Instructional Services	0	8,059	8,059	0
Extracurricular Activities	159,000	193,141	143,345	49,796
Capital Outlay	0	61,250	61,141	109
<i>Total Expenditures</i>	<u>9,247,314</u>	<u>9,359,063</u>	<u>8,740,790</u>	<u>618,273</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,301,114)</u>	<u>(750,201)</u>	<u>(123,484)</u>	<u>626,717</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	0	270	270	0
Advances In	0	53,000	53,000	0
Advances Out	(40,000)	(26,000)	(11,400)	14,600
Transfers In	22,000	0	0	0
Transfers Out	(125,000)	(75,000)	(74,604)	396
<i>Total Other Financing Sources (Uses)</i>	<u>(143,000)</u>	<u>(47,730)</u>	<u>(32,734)</u>	<u>14,996</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,444,114)</u>	<u>(797,931)</u>	<u>(156,218)</u>	<u>641,713</u>
<i>Fund Balance at Beginning of Year</i>	1,956,989	1,956,989	1,956,989	0
Prior Year Encumbrances Appropriated	24,073	24,073	24,073	0
<i>Fund Balance at End of Year</i>	<u>\$536,948</u>	<u>\$1,183,131</u>	<u>\$1,824,844</u>	<u>\$641,713</u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Title I Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental	\$0	\$950,161	\$569,024	(\$381,137)
<i>Total Revenues</i>	<u>0</u>	<u>950,161</u>	<u>569,024</u>	<u>(381,137)</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	50,948	50,000	0	50,000
Special	3,507	651,060	385,126	265,934
<i>Support Services:</i>				
Instructional Staff	1,281	103,440	91,153	12,287
Administration	687	74,977	59,947	15,030
Fiscal	0	2,810	2,204	606
Pupil Transportation	0	23,200	0	23,200
Operation of Non-Instructional Services	0	20,000	5,577	14,423
<i>Total Expenditures</i>	<u>56,423</u>	<u>925,487</u>	<u>544,007</u>	<u>381,480</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(56,423)</u>	<u>24,674</u>	<u>25,017</u>	<u>343</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	0	46,035	46,035	0
Transfers Out	0	(45,122)	(45,122)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>913</u>	<u>913</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(56,423)</u>	<u>25,587</u>	<u>25,930</u>	<u>343</u>
<i>Fund Balance at Beginning of Year</i>	14,281	14,281	14,281	0
Prior Year Encumbrances Appropriated	<u>5,475</u>	<u>5,475</u>	<u>5,475</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>(\$36,667)</u>	<u>\$45,343</u>	<u>\$45,686</u>	<u>\$343</u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	Agency	Total
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$84,673	\$50,396	\$135,069
Investments	34,500	0	34,500
Accrued Interest Receivable	352	0	352
<i>Total Assets</i>	<u>119,525</u>	<u>50,396</u>	<u>169,921</u>
<u>Liabilities:</u>			
Accounts Payable	0	3,588	3,588
Due to Students	0	46,808	46,808
<i>Total Liabilities</i>	<u>0</u>	<u>50,396</u>	<u>50,396</u>
<u>Net Assets:</u>			
Unrestricted	<u>\$119,525</u>	<u>\$0</u>	<u>\$119,525</u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

For the Fiscal Year Ended June 30, 2004

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Gifts and Contributions	\$84,758
Interest	<u>630</u>
<i>Total Additions</i>	<u>85,388</u>
<u>Deductions:</u>	
Payments in Accordance with Trust Agreements	<u>5,728</u>
<i>Total Deductions</i>	<u>5,728</u>
<i>Change in Net Assets</i>	79,660
<i>Net Assets Beginning of Year</i>	<u>39,865</u>
<i>Net Assets End of Year</i>	<u><u>\$119,525</u></u>

See accompanying notes to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

The Nelsonville-York City School District (the "District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District provides educational services as authorized by State statute and/or federal guidelines. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Board controls the District's instructional support facilities staffed by 66 non-certificated, 91 teaching personnel and 14 administrative employees providing education to approximately 1,318 students.

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

Reporting Entity

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

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

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

- ▶ Nelsonville Christian Academy
- ▶ Parent Teacher Organization
- ▶ Athens-Meigs Educational Service Center
- ▶ Booster Club

The District is associated with five organizations, four of which are defined as jointly governed organizations and one as a group purchasing pool. These organizations are the Tri-County Joint Career Center, the Southeastern Ohio Voluntary Education Cooperative, the Southeastern Ohio Special Education Regional Resource Center, the Athens County School Employees Health and Welfare Benefit Association, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the District fall within two categories: governmental and fiduciary.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Governmental Funds

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

The following are the District's major governmental funds:

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

Title I Fund- This fund is used to account for intergovernmental revenue that is received for the purpose of financing the special needs of educationally deprived children.

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

The other governmental funds of the District account for grants and other resources of the District whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary funds are a private purpose trust fund held for scholarships and an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Financial Statements

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and fund financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

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

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Expenses/Expenditures

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

The 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.

E. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during fiscal year 2004.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during fiscal year 2004.

F. Cash and Cash Equivalents

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

During the fiscal year 2004, the District's investments were limited to certificates of deposit with local institutions and STAROhio. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$27,644, which includes \$9,945 assigned from other District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption and donated food, purchased food and school supplies held for resale. The cost of inventory items is recorded as an expenditure in the governmental funds when consumed, used or sold.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. As of June 30, 2004, the District reported restricted assets in the General Fund which represent cash and cash equivalents set aside for statutory set-asides.

J. Capital Assets

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost 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.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture, Fixtures and Equipment	6 - 15 years
Vehicles	5 - 10 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences" as interpreted by Interpretation No. 6 of the GASB, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees, and administrators who have at least 20 years of service with the District.

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

For the governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees will be paid.

M. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and loans are recognized as a liability on the fund financial statements when due.

N. Net Assets

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

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

O. Fund Balance Reserves

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

P. Interfund Transactions

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

Q. Estimates

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

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

Changes in Accounting Principles

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements present the District's programs as governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES - (Continued)

Restatement of Fund Balances

The restatements for fund reclassifications, the elimination of fund capital assets that were reclassified to general capital assets, and GASB Statement No. 34 had the following effects on the fund balance of major and nonmajor governmental funds of the District as they were previously reported.

	<u>General</u>	<u>Title I</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$1,390,938	\$65,310	\$596,112	\$294,549	\$2,346,909
Reclassify Food Service Fund	0	0	0	9,783	9,783
Reclassify Uniform School Supply Fund	0	0	0	1,575	1,575
Restatement of Auxiliary Service Fund	0	0	0	26,463	26,463
Elimination of Capital Assets	0	0	0	(81,265)	(81,265)
Adjusted Fund Balances, June 30, 2003	<u>\$1,390,938</u>	<u>\$65,310</u>	<u>\$596,112</u>	<u>\$251,105</u>	2,303,465
<i>GASB 34 Adjustments:</i>					
Intergovernmental Receivable					43,258
Property Taxes Receivable					263,985
Capital Assets					10,783,934
Accrued Interest Payable					(7,902)
Intergovernmental Payable					(67,910)
<i>Long-Term Obligation:</i>					
Compensated Absences Payable					(671,780)
Asbestos Loan					(26,595)
General Obligation Bonds					<u>(2,235,000)</u>
Governmental Activities Net Assets, June 30, 2003					<u>\$10,385,455</u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), is presented for the General and Title I Funds 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 (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General and Title I Funds:

	Net Change in Fund Balance	
	General	Title I
GAAP Basis	(\$331,835)	(\$101,900)
<i>Adjustments:</i>		
Revenue Accruals	(60,014)	101,472
Expenditure Accruals	135,224	16,921
Encumbrances	58,807	9,437
Other Sources (Uses)	41,600	0
Budget Basis	(\$156,218)	\$25,930

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 5 - ACCOUNTABILITY

Fund Deficits

Fund balances at June 30, 2004 included the following individual fund deficits:

Title I Fund	\$36,590
<i>Nonmajor Special Revenue Funds:</i>	
Lunchroom	72,715
Athletics	784
DPIA	60,999
Ohio Wellness Grant	6,967
Title III	3,808

The deficit in each of these funds is the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. These deficits will be eliminated as future expected revenues are received. These deficits do not exist on the cash basis. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 6 - CASH, DEPOSITS AND INVESTMENTS

State law requires the classification of monies held by the District into three categories.

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

Inactive deposits are public deposits that the Board 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 accounts including passbook accounts.

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

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 6 - CASH, DEPOSITS AND INVESTMENTS - (Continued)

State Statute permits interim monies to be deposited or invested in the following securities:

- (1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- (2) Bonds, Notes, Debentures, or any other 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 federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value 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;
- (6) The State Treasurer's investment pool (STAROhio); and
- (7) Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year-end, the carrying amount of the District's deposits was \$592,736 and the bank balance was \$682,941. Of the bank balance, \$299,000 was covered by federal depository insurance. The remaining amounts were collateralized with securities held by the District's pledging financial institution's trust department or agent in the District's name. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the money to a successful claim by the Federal Deposit Insurance Corporation.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 6 - CASH, DEPOSITS AND INVESTMENTS - (Continued)

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

	<u>Carrying Value</u>	<u>Fair Value</u>
STAROhio	<u>\$2,700,641</u>	<u>\$2,700,641</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$3,293,377	\$ 34,500
<i>Investments:</i>		
STAROhio	<u>(2,700,641)</u>	<u>2,700,641</u>
GASB Statement No. 3	<u>\$592,736</u>	<u>\$2,735,141</u>

NOTE 7 - 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 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 is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. 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 semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 7 - PROPERTY TAXES - (Continued)

The District receives property taxes from Athens and Hocking Counties. The County Auditor from each county periodically advances to the District their portion of the taxes collected. Second-half real property tax payments collected by each county by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2004. Although total property tax collections for the fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current 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 was \$123,246 for the General Fund, \$22,538 for the Bond Retirement Debt Service Fund and \$2,504 for the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$67,389,190	82%	\$68,779,290	85%
Public Utility Personal	8,172,270	10%	8,249,300	10%
Tangible Personal Property	6,011,890	8%	4,188,564	5%
Total Assessed Value	<u>\$81,573,350</u>	<u>100%</u>	<u>\$81,217,154</u>	<u>100%</u>
Tax Rate per \$1,000 of Assessed Valuation		\$32.20		\$32.20

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes 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 year guarantee of federal funds. The principal items of intergovernmental receivables follow:

Title I Fund	\$336,015
<i>Nonmajor Special Revenue Funds:</i>	
Title VI-B	20,505
Chapter II	12,347
Drug Free Grant	3,604
Pre-School Grant	332
JAVITS Grant	17,510
<i>Total Nonmajor Special Revenue Funds</i>	<u>54,298</u>
Total Intergovernmental Receivables	<u>\$390,313</u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 9 - CAPITAL ASSETS

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

<u>Asset Category</u>	<u>Balance at July 1, 2003</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2004</u>
Governmental Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$105,964	\$0	\$0	\$105,964
<i>Depreciable Capital Assets:</i>				
Land Improvements	533,350	57,250	0	590,600
Buildings and Improvements	11,875,609	460,306	0	12,335,915
Furniture, Fixtures and Equipment	2,484,022	139,102	0	2,623,124
Vehicles	1,103,458	81,545	(25,932)	1,159,071
Total Depreciable Capital Assets	<u>15,996,439</u>	<u>738,203</u>	<u>(25,932)</u>	<u>16,708,710</u>
Total Capital Assets	<u>16,102,403</u>	<u>738,203</u>	<u>(25,932)</u>	<u>16,814,674</u>
<i>Accumulated Depreciation:</i>				
Land Improvements	(271,685)	(17,972)	0	(289,657)
Buildings and Improvements	(2,801,359)	(371,239)	0	(3,172,598)
Furniture, Fixtures and Equipment	(1,723,158)	(154,323)	0	(1,877,481)
Vehicles	(522,267)	(109,533)	25,932	(605,868)
Total Accumulated Depreciation	<u>(5,318,469)</u>	<u>(653,067)</u>	<u>25,932</u>	<u>(5,945,604)</u>
Governmental Activities Capital Assets, Net	<u>\$10,783,934</u>	<u>\$85,136</u>	<u>\$0</u>	<u>\$10,869,070</u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<u>Governmental Activities:</u>	
<i>Instruction:</i>	
Regular	\$467,686
Special	6,669
Vocational	414
<i>Support Services:</i>	
Pupils	813
Instructional Staff	18,613
Administration	8,743
Fiscal	2,465
Operation and Maintenance of Plant	11,105
Pupil Transportation	114,114
Operation of Non-Instructional Services	11,053
Extracurricular Activities	11,392
Governmental Activities Depreciation Expense	<u><u>\$653,067</u></u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District contracted with various commercial carriers for property and fleet insurance, liability insurance, inland marine coverage, and public official bonds. Coverages provided are as follows:

Building and Contents (\$1,000 deductible)	\$27,691,669
Automobile Liability (\$100 deductible):	
Per Person	1,000,000
Per Accident	1,000,000
Uninsured Motorists (\$100 deductible):	
Per Person	50,000
Per Accident	50,000
General Liability:	
Per Occurrence	2,000,000
Total Per Year	5,000,000
Public Official Bonds:	
Treasurer	20,000
Superintendent/Board President (each)	6,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$148,832, \$90,487, and \$57,158, respectively; 50.00 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$74,416 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

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 publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

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

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent. For fiscal year 2004, 13 percent of the District's contribution was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$621,506, \$617,937, and \$405,535, respectively; 82.59 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$108,210 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$47,808 during fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The target level for health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$175,966 during the 2004 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent and Treasurer. 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 310 days. Upon retirement, payment is made for an employee's accumulated sick leave up to a maximum of 60 days for certified employees and administrators and 66 days for classified employees.

Health Care Benefits

The District has elected to provide employee medical/surgical benefits, dental and prescription drug benefits through the Athens County School Employee Health and Welfare Benefit Association. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. See Note 17 for more information concerning the Athens County School Employee Health and Welfare Benefit Association.

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Issue Date	Interest Rate	Principal Outstanding at July 1, 2003	Additions	Deductions	Principal Outstanding at June 30, 2004	Amount Due In One Year
<i>Governmental Activities:</i>							
Asbestos Removal Loan	1995	N/A	\$26,595	\$0	\$18,637	\$7,958	\$7,958
General Obligation Bonds	2001	3.50-5.60%	2,235,000	0	90,000	2,145,000	95,000
Total General Obligation Debt			2,261,595	0	108,637	2,152,958	102,958
Compensated Absences Payable		N/A	714,223	194,691	167,937	740,977	127,474
Total Governmental Activities Long-Term Obligations			<u>\$2,975,818</u>	<u>\$194,691</u>	<u>\$276,574</u>	<u>\$2,893,935</u>	<u>\$230,432</u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The general obligation bonds were issued in the amount of \$2,731,199 in March 1997 as a result of the District being approved for a \$8,266,334 school facilities loan through the State Department of Education for the construction of an elementary school building and improvements to the middle school building. The District issued the general obligation bonds to provide a partial cash match for the school facilities loan. As a requirement of the loan, the District was required to pass a 4.50 mill levy. The 4.50 mill levy, of which .50 mill was to be used for the retirement of the loan, will be in effect for twenty-three years.

In March 1998, the District was notified by the Ohio School Facilities Commission that they would not be responsible for repaying the remainder of the \$8,266,334 classroom facilities loan to the State because the District's adjusted valuation per pupil was less than the state-wide median adjusted valuation per pupil. In lieu of the repayment, the District must set aside the funds that would have been used for repayment for facilities maintenance. As part of this process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the District's adjusted valuation per pupil increases above the state-wide median adjusted valuation during the twenty-three year period, the District may become responsible for repayment of a portion of the State's contribution.

Compensated absences will be paid from the fund from which the employee is paid. The asbestos removal loan and general obligation bonds will be paid from the Bond Retirement Debt Service Fund.

The District's voted legal debt margin was \$4,492,131 with an unvoted debt margin of \$81,217 at June 30, 2004.

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

<u>Year Ending June 30</u>	<u>Asbestos Removal Loan</u>	<u>General Obligation Bonds</u>
2005	\$7,958	\$216,861
2006	0	217,375
2007	0	221,805
2008	0	220,168
2009	0	218,235
2010-2014	0	1,074,945
2015-2019	0	1,043,797
Total Principal & Interest	7,958	3,213,186
Less: Interest	0	1,068,186
Total Principal	<u>\$7,958</u>	<u>\$2,145,000</u>

NELSONVILLE-YORK CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$51,400	\$0
<i>Nonmajor Special Revenue Funds:</i>		
Lunchroom	0	50,000
Ohio Wellness Grant	0	1,400
Total Nonmajor Special Revenue Funds	<u>0</u>	<u>51,400</u>
Total	<u>\$51,400</u>	<u>\$51,400</u>

The balance of \$51,400 due to the General Fund from the funds listed is a result advances made to these funds that have not yet been repaid. It is anticipated that these advances will be repaid in the following year.

During fiscal year ended June 30, 2004, the District's interfund transfers were as follows:

Transfers From	Transfers To				
	General	Title I	Bond Retirement	Nonmajor Special Revenue Funds	Total
General	\$0	\$913	\$18,637	\$55,054	\$74,604

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the fiscal year 2004, the District made a transfer from the General Fund of \$50,000 to the Lunchroom Special Revenue Fund to subsidize operations in that fund.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 16 - STATUTORY SET-ASIDES

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, Senate Bill 345 eliminated the requirement for a budget reserve; however, the amount of the budget reserve funded with workers' compensation refunds or rebates may only be used to offset a budget deficit or certain other expenditures as directed by the Board of Education.

The following information describes the change in the fiscal year end set-asides amounts for textbooks, capital improvements, and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Improvements	Budget Stabilization	Totals
Set-Aside Balance as of July 1, 2003	\$70,578	\$10,344	\$40,730	\$121,652
Current Year Set-Aside Requirement	185,053	185,053	0	370,106
Current Year Offset	0	(38,424)	0	(38,424)
Qualifying Disbursements	(212,632)	(156,661)	0	(369,293)
Total	42,999	312	40,730	84,041
Set-Aside Balance as of June 30, 2004	<u>\$42,999</u>	<u>\$312</u>	<u>\$40,730</u>	
Total Restricted Assets				<u>\$84,041</u>

Senate Bill 345 eliminated the Budget Stabilization Reserve, except for amounts related to unspent Bureau of Workers' Compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve. On October 8, 2002, the board approved the retainage of the balance in the Budget Stabilization Reserve as a set-aside.

Although the District can have qualifying disbursements during the year that exceed the current year set-aside requirements in both the textbook and capital improvement reserve accounts, only the excess in the textbook reserve account can be carried forward to offset future years' textbook set-aside requirements. Cash balances in both the textbook and capital improvement reserve accounts may also be used to offset future years' textbook and capital improvement set-aside requirements.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Tri-County Career Center

The Tri-County Career Center is a jointly governed organization providing vocational services to its eight member Districts, governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2004, the District made no contributions to the Career Center. Financial information can be obtained from Tri-County Career Center, 15676 State Route 691, Nelsonville, Ohio 45764.

Southeastern Ohio Voluntary Education Cooperative

The District is a participant among a ten county consortium of school districts to operate the Southeastern Ohio Voluntary Education Cooperative (SEOVEC). The organization was formed for the purpose of applying modern technology, with the aid of computers and other electronic equipment, to administrative and instructional functions among member districts. SEOVEC is governed by a board of directors consisting of one representative from each of the participating districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The District paid \$9,064 to SEOVEC for services provided during the year. Financial information for SEOVEC can be obtained from their administrative offices at P.O. Box 1250, Athens, Ohio 45701.

Southeastern Ohio Special Education Regional Resource Center

The Southeastern Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Currently, the Nelsonville-York City School District has no representation on the SERRC Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Athens County School Employee Health and Welfare Benefit Association

The District is a participant in a consortium of seven districts to operate the Athens County School Employee Health and Welfare Benefit Association. The Association was created to provide health care and dental benefits for the employees and eligible dependents of employees of participating districts. The Association has contracted with Anthem Insurance Company to be the health care provider for medical benefits as well as to provide aggregate and specific stop loss insurance coverage, and Coresource to provide administration for its dental benefits. The Association is governed by a board of directors consisting of one representative from each of the participating districts. Financial information for the Association can be obtained from the administrators at Combs & Associates, P.O. Box 735, Kenton, OH 43326.

NELSONVILLE-YORK CITY SCHOOL DISTRICT

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

NOTE 18 - GROUP PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Plan

The District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Worker's Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 a enrollment fee to the Plan to cover the costs of administering the program.

NOTE 19 - SCHOOL FUNDING COURT DECISION

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

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

NOTE 20 - CONTINGENCIES

Grants

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

Litigation

The District is party to legal proceedings. The District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

NOTE 21 - SUBSEQUENT EVENTS

In August 2004, the District Board authorized the issuance of \$2,708,000 in Classroom Facilities Assistance Program bonds and \$2,500,000 of Local Funded Initiatives bonds to finance the District's share of the Ohio School Facilities Commission project.

*Nelsonville York City School District
Athens County*

*Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004*

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	NA	10.550	\$0	\$22,067	\$0	\$22,067
National School Breakfast Program	05PU	10.553	52,164	0	52,164	0
National School Lunch Program	LLP4	10.555	<u>174,873</u>	<u>0</u>	<u>174,873</u>	<u>0</u>
Total United States Department of Agriculture			227,037	22,067	227,037	22,067
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education- Grants to States	6B-SF	84.027	236,696	0	195,093	0
Special Education- Preschool	PGS1	84.173	<u>4,783</u>	<u>0</u>	<u>3,997</u>	<u>0</u>
Total Special Education Cluster			241,479	0	199,090	0
Title 1	C1S1	84.010	568,112	0	533,656	0
Safe and Drug Free Schools	DRS1	84.186	9,784	0	11,465	0
Innovative Education Program Strategy	C2S1	84.298	1,479	0	2,885	0
Education Technology State Grants	TJS1	84.318	23,496	0	795	0
Rural Education (REAP)	RUS1	84.358	27,673	0	26,565	0
Improving Teacher Quality State Grants	TRS1	84.367	<u>123,779</u>	<u>0</u>	<u>125,572</u>	<u>0</u>
<i>Passed through Ohio School Facilities Commission</i>						
Federal Emergency Repair Program	NA	84.352A	<u>455,252</u>	<u>0</u>	<u>398,909</u>	<u>0</u>
Total United States Department of Education			1,451,054	0	1,298,937	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	NA	93.778	<u>33,285</u>	<u>0</u>	<u>33,285</u>	<u>0</u>
Total United States Department of Health and Human Services			<u>33,285</u>	<u>0</u>	<u>33,285</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$1,711,376</u>	<u>\$22,067</u>	<u>\$1,559,259</u>	<u>\$22,067</u>

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

NELSONVILLE-YORK CITY SCHOOL DISTRICT
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -FOOD DISTRIBUTIONS

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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Ohio Society of Certified Public Accountants

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

Members of the Board
Nelsonville-York City School District
Two Buckeye Drive
Nelsonville, Ohio 45764

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nelsonville-York City School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 14, 2005, in which we indicated that the District implemented GASB Statements No. 34, 37, 38 and Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of the Board

Nelsonville-York City School District

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

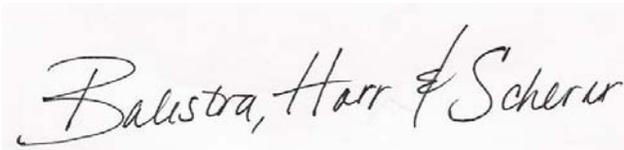
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated February 14, 2005.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.

February 14, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board
Nelsonville-York City School District
Two Buckeye Drive
Nelsonville, Ohio 45764

Compliance

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

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

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

Members of the Board

Nelsonville-York City School District

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

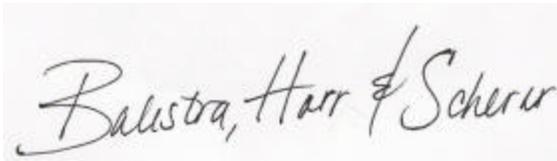
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Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance, which we have reported to management in a separate letter dated February 14, 2005.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.
February 14, 2005

NELSONVILLE-YORK CITY SCHOOL DISTRICT
ATHENS COUNTY
JUNE 30, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs = Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010, Title I CFDA #84.352A, Federal Emergency Repair Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

NELSONVILLE-YORK CITY SCHOOL DISTRICT
ATHENS COUNTY
JUNE 30, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

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

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State
Betty Montgomery**

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NELSONVILLE-YORK CITY SCHOOL DISTRICT

ATHENS 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
MAY 5, 2005**