

SHAWNEE LOCAL SCHOOL DISTRICT

ALLEN COUNTY

AUDITED

BASIC FINANCIAL STATEMENTS – CASH BASIS

For The Year Ended June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Shawnee Local School District
3255 Zurmehly Road
Lima, Ohio 45806

We have reviewed the *Independent Auditors' Report* of the Shawnee Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 to June 30, 2005. 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 Shawnee Local 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

January 18, 2006

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**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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We're Ready For Your Future

November 8, 2005

The Board of Education
Shawnee Local School District
Lima, Ohio 45806

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shawnee Local School District, Allen County, Ohio (the District), as of and for the year ended June 30, 2005, 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 opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shawnee Local School District, Allen County, Ohio, as of June 30, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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 read in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of the Shawnee Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- ❑ General Receipts accounted for \$17,402,593 in receipts or 83% of all receipts. Program specific receipts in the form of charges for services and sales, operating grants, and contributions accounted for \$3,501,039 or 17% of total receipts of \$20,903,632.
- ❑ The District had \$19,196,109 in expenses related to government activities; of which \$2,572,712 was offset by program specific charges for services and operating grants.
- ❑ The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$17,660,961 in receipts and other financing sources and \$16,690,168 in disbursements. The fund balance of the general fund increased from \$779,200 in fiscal year 2004 to \$1,749,993 in fiscal year 2005. The permanent improvement fund had \$629,723 in receipts and \$496,878 in disbursements. The fund balance of the permanent improvement fund increased from \$419,586 in fiscal year 2004 to \$552,431 in fiscal year 2005.
- ❑ Net assets of Governmental Activities of the District at June 30, 2005 totaled \$3,262,380.

Using this Annual Report

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

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

The notes to the financial statements are an integral part of the district-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursements.

Essentially, the only assets reported on this strictly cash receipts and disbursement basis presentation in a statement of net assets will be cash, cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question.

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

In the Statement of Net Assets and the Statement of Activities, we divide the School District into two types of activities:

Governmental activities - Most of the School District's basic services are reported here, including instructional and support services, extracurricular activities, and maintenance and construction. State and federal grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activities - The School District has two business-type activities: food services and uniform school supplies. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund and the Permanent Improvements Fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Proprietary Funds - When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has two enterprise funds - the Food Service Fund and the Uniform School Supplies Fund.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on page 18. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The 2004 financial statements were prepared on the cash basis but did not include the implementation of GASB 34. As a result, attempting to compare this year's data to last year's would be misleading to the reader. The School District will provide this comparative analysis in subsequent years.

Table 1 provides a summary of the School District's net assets for 2005:

(Table 1)
Net Assets – Cash Basis

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash & cash equivalents	\$ 3,262,380	\$ 141,087	\$ 3,403,467
Total Assets	<u>\$ 3,262,380</u>	<u>\$ 141,087</u>	<u>\$ 3,403,467</u>
NET ASSETS			
Restricted:			
Capital Projects	\$ 552,431	\$ 0	\$ 552,431
Other Purposes	695,397	0	695,397
Unrestricted	<u>2,014,552</u>	<u>141,087</u>	<u>2,155,639</u>
Total Net Assets	<u>\$ 3,262,380</u>	<u>\$ 141,087</u>	<u>\$ 3,403,467</u>

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, receipts and disbursement comparisons to fiscal year 2004 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

(Table 2)
Governmental Activities

	Governmental Activities	Business-Type Activities
<i>Program Receipts</i>		
Charges for Services	\$ 1,193,687	\$ 750,156
Operating Grants	1,379,025	178,171
<i>General Receipts</i>		
Property Taxes levied for:		
General Purpose	12,171,766	0
Debt Service	(19)	0
Grants and Entitlements	4,968,663	0
Other	259,279	2,904
Total Receipts	19,972,401	931,231
<i>Program Disbursements</i>		
Instruction	10,511,918	0
Support Services	7,286,307	0
Non-instructional	263,687	0
Extracurricular	701,179	0
Repayment of Debt	211,413	0
Claims	221,605	0
Food Services	0	459,585
Materials and Supplies	0	459,811
Total Disbursements	19,196,109	919,396
Increase in Net Assets	\$ 776,292	\$ 11,835

Governmental Activities

Several receipt sources fund the School District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$12.1 million in 2005. Grants and entitlements, also a large contributor, generated \$4.9 million. With the combination of taxes and intergovernmental funding over 85% of disbursements in governmental activities, the School District monitors both of these receipts sources very closely for fluctuations.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements. Comparisons to 2004 have not been made since they are not available.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

(Table 3)
Governmental Activities

	2005	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 10,511,918	\$ 9,171,475
Support Services:		
Pupil and Instructional Staff	1,456,045	1,274,875
Board of Education, Administration, Fiscal and Central	2,239,969	1,996,530
Operation and Maintenance of Plant	2,506,099	2,353,229
Pupil Transportation	1,084,194	1,023,308
Operation of Non-Instructional Services	263,687	23,652
Extracurricular Activities	701,179	347,310
Repayment of Debt	211,413	211,413
Claims	221,605	221,605
	\$ 19,196,109	\$ 16,623,397

Instruction and student support services comprise 62% of governmental program disbursements. Interest, fiscal and administration charges were 12%. Pupil transportation and the operation/maintenance of facilities accounts for 19% of governmental program disbursements. 7% of current year disbursements were comprised of Operation of Non-Instructional Services, Extracurricular Activities, Repayment of Debt and Claims.

Business-Type Activities

The District's most significant business-type activity is food services. In reviewing the business-type activities' net receipts/ (disbursements) resulting from cash basis transactions, the results of activities need to be reviewed annually.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District did significantly modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis receipts were \$17,647,385, over the original budget estimates of \$17,480,392. Of this \$166,993 increase, most was attributable to an increase in intergovernmental receipts.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Set Asides and Debt Administration

Set Aside

A change in Ohio law required school districts to set aside 3% of certain receipts for capital improvements and an additional 3% for textbooks (see note 10). For fiscal year 2005, this amounted to \$377,954 for each set aside. The School District has qualifying disbursements or offsets for capital acquisition equaling \$403,971. The undispersed balance is noted as reserved equity. For the textbooks, the School District disbursed \$189,923, with the remainder scheduled to be carried forward into the 2006 fiscal year.

Debt

At June 30, 2005, the School District had the Bond Anticipation Note paid in full. The school district currently has no debt.

Current Issues

The Shawnee Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was in March, 2004, with the belief that the receipts generated by the levy would provide sufficient funding for five years.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall receipts generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts which are heavily dependent upon property taxes are hampered by a lack of revenue growth for operating purposes and must regularly return to the voters to maintain a constant level of service. Property taxes made up 61% of receipts for governmental activities for the Shawnee Local School District in fiscal year 2005.

The School District has also been affected by changes in the personal property tax structure, including utility deregulation and the phase out of the tax on inventories. Management has diligently planned disbursements in an effort to maintain financial stability. Included in this effort was a reduction in district employees, with most of the 25 positions eliminated effective July 1, 2004. Maintaining this financial stability has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax receipts growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Shawnee Local School District has not anticipated any meaningful growth in State receipts. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern is the State Legislative approval of the biennial budget, effective July 1, 2005, which had a negative impact on the district. Included in the budget is the elimination of the personal property tax over the next four years, with no guarantee of full revenue replacement beyond the current biennial budget. The District currently collects approximately 25% of its local taxes from personal property valuation. How the legislature plans to fund education programs during a weakened economy remains a concern.

SHAWNEE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Greg Buddelmeyer, Treasurer of Shawnee Local District, 3255 Zurmehly Rd., Lima, OH 45806.

Shawnee Local School District
Statement of Net Assets - Cash Basis
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,262,380	\$ 141,087	\$ 3,403,467
<i>Total Assets</i>	<u>\$ 3,262,380</u>	<u>\$ 141,087</u>	<u>\$ 3,403,467</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 552,431	\$ 0	\$ 552,431
Other Purposes	695,397	0	695,397
Unrestricted	<u>2,014,552</u>	<u>141,087</u>	<u>2,155,639</u>
<i>Total Net Assets</i>	<u>\$ 3,262,380</u>	<u>\$ 141,087</u>	<u>\$ 3,403,467</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Activities - Cash Basis
For the Year Ended June 30, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Instruction						
Regular	\$ 7,827,583	\$ 403,226	\$ 133,978	\$ (7,290,379)	\$ 0	\$ (7,290,379)
Special	1,962,887	70,544	694,366	(1,197,977)	0	(1,197,977)
Other	721,448	38,329	0	(683,119)	0	(683,119)
Support Services						
Pupil	652,963	33,591	20,698	(598,674)	0	(598,674)
Instructional Staff	803,082	33,828	93,053	(676,201)	0	(676,201)
Board of Education	75,880	4,031	0	(71,849)	0	(71,849)
Administration	1,639,402	80,393	122,980	(1,436,029)	0	(1,436,029)
Fiscal	516,456	26,818	986	(488,652)	0	(488,652)
Operation and Maintenance of Plant	2,506,099	121,355	31,515	(2,353,229)	0	(2,353,229)
Pupil Transportation	1,084,194	52,021	8,865	(1,023,308)	0	(1,023,308)
Central	8,231	0	8,231	0	0	0
Operation of Non-Instructional Services	263,687	0	240,035	(23,652)	0	(23,652)
Extracurricular Activities	701,179	329,551	24,318	(347,310)	0	(347,310)
Capital Outlay						
Repayment of Debt:						
Principal Retirement	208,000	0	0	(208,000)	0	(208,000)
Interest	3,413	0	0	(3,413)	0	(3,413)
Claims	221,605	0	0	(221,605)	0	(221,605)
<i>Total Governmental Activities</i>	<u>19,196,109</u>	<u>1,193,687</u>	<u>1,379,025</u>	<u>(16,623,397)</u>	<u>0</u>	<u>(16,623,397)</u>
Business-Type Activities:						
Food Services	459,585	639,166	178,171	0	357,752	357,752
Uniform School Supplies	459,811	110,990	0	0	(348,821)	(348,821)
<i>Total Business-Type Activities</i>	<u>919,396</u>	<u>750,156</u>	<u>178,171</u>	<u>0</u>	<u>8,931</u>	<u>8,931</u>
Totals	<u>\$ 20,115,505</u>	<u>\$ 1,943,843</u>	<u>\$ 1,557,196</u>	<u>(16,623,397)</u>	<u>8,931</u>	<u>(16,614,466)</u>
General Receipts						
Property Taxes Levied for:						
General Purposes				12,171,766	0	12,171,766
Debt Service				(19)	0	(19)
Grants and Entitlements not Restricted to Specific Programs				4,968,663	0	4,968,663
Proceeds from the Sale of Bonds				5,743	0	5,743
Other Financing Sources				9,209	0	9,209
Interest				91,445	2,904	94,349
Miscellaneous				152,882	0	152,882
<i>Total General Receipts</i>				<u>17,399,689</u>	<u>2,904</u>	<u>17,402,593</u>
Change in Net Assets				776,292	11,835	788,127
<i>Net Assets - Beginning of Year</i>				<u>2,486,088</u>	<u>129,252</u>	<u>2,615,340</u>
<i>Net Assets - End of Year</i>				<u>\$ 3,262,380</u>	<u>\$ 141,087</u>	<u>\$ 3,403,467</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2005

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 1,749,993	\$ 552,431	\$ 302,585	\$ 2,605,009
<i>Total Assets</i>	<u>\$ 1,749,993</u>	<u>\$ 552,431</u>	<u>\$ 302,585</u>	<u>\$ 2,605,009</u>
Fund Balances				
Reserved for:				
Encumbrances	\$ 110,789	\$ 244,391	\$ 24,189	\$ 379,369
Budget Stabilization	490,091	0	0	490,091
Set-Asides	205,306	0	0	205,306
Unreserved:				
Undesignated, Reported in:				
General Fund	943,807	0	0	943,807
Special Revenue Funds	0	0	278,396	278,396
Capital Projects Funds	0	308,040	0	308,040
<i>Total Fund Balances</i>	<u>\$ 1,749,993</u>	<u>\$ 552,431</u>	<u>\$ 302,585</u>	<u>\$ 2,605,009</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
*Reconciliation of Total Government Fund Balances to
Net Assets of Governmental Activities
For the Fiscal Year Ended June 30, 2005*

Total Governmental Fund Balances \$2,605,009

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

Governmental activities' net assets include the internal service
fund's cash and cash equivalents. The proprietary funds'
statements include these assets.

657,371

Net Assets of Governmental Activities

\$3,262,380

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$ 11,594,818	\$ 576,948	\$ (19)	\$ 12,171,747
Intergovernmental	4,993,738	41,943	1,293,863	6,329,544
Interest	68,862	10,832	4,348	84,042
Tuition and Fees	884,795	0	0	884,795
Extracurricular Activities	0	0	327,035	327,035
Miscellaneous	105,172	0	42,483	147,655
<i>Total Receipts</i>	<u>17,647,385</u>	<u>629,723</u>	<u>1,667,710</u>	<u>19,944,818</u>
Disbursements				
Current:				
Instruction				
Regular	7,589,780	118,627	119,176	7,827,583
Special	1,327,816	0	635,071	1,962,887
Other	721,446	0	2	721,448
Support Services				
Pupil	632,266	0	20,697	652,963
Instructional Staff	636,727	48,219	118,136	803,082
Board of Education	75,880	0	0	75,880
Administration	1,513,209	3,508	122,685	1,639,402
Fiscal	504,780	11,676	0	516,456
Operation and Maintenance of Plant	2,284,220	209,827	12,052	2,506,099
Pupil Transportation	979,172	105,021	1	1,084,194
Central	0	0	8,231	8,231
Operation of Non-Instructional Services	0	0	263,687	263,687
Extracurricular Activities	424,872	0	276,307	701,179
Debt Service:				
Principal Retirement	0	0	208,000	208,000
Interest	0	0	3,413	3,413
<i>Total Disbursements</i>	<u>16,690,168</u>	<u>496,878</u>	<u>1,787,458</u>	<u>18,974,504</u>
<i>excess of Receipts Over Disbursements</i>	<u>957,217</u>	<u>132,845</u>	<u>(119,748)</u>	<u>970,314</u>
Other Financing Sources (Uses)				
Proceeds from Disposition of Fixed Assets	4,367	0	1,377	5,744
Refund of Prior Year Expenditures	9,209	0	0	9,209
<i>Total Other Financing Sources (Uses)</i>	<u>13,576</u>	<u>0</u>	<u>1,377</u>	<u>14,953</u>
<i>Net Change in Fund Balances</i>	970,793	132,845	(118,371)	985,267
<i>Fund Balances - Beginning of Year</i>	<u>779,200</u>	<u>419,586</u>	<u>420,956</u>	<u>1,619,742</u>
<i>Fund Balances - End of Year</i>	<u>\$ 1,749,993</u>	<u>\$ 552,431</u>	<u>\$ 302,585</u>	<u>\$ 2,605,009</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$985,267

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

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements). (208,975)

Change in Net Assets of Governmental Activities \$776,292

See accompanying notes to the basic financial statements.

Shawnee Local School District
Budgetary Comparison Schedule-Cash Basis-General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Receipts				
Taxes	\$ 11,762,026	\$ 11,794,420	\$ 11,594,818	\$ (199,602)
Intergovernmental	4,779,771	4,855,429	4,993,738	138,309
Interest	38,000	68,000	68,862	862
Tuition and Fees	830,345	889,542	884,795	(4,747)
Miscellaneous	70,250	83,750	105,172	21,422
<i>Total Receipts</i>	<u>17,480,392</u>	<u>17,691,141</u>	<u>17,647,385</u>	<u>(43,756)</u>
Disbursements				
Current:				
Instruction				
Regular	7,682,769	7,732,995	7,615,913	117,082
Special	1,515,664	1,402,180	1,329,570	72,610
Other	715,692	722,300	722,184	116
Support Services				0
Pupil	674,996	644,044	636,796	7,248
Instructional Staff	689,877	670,319	658,264	12,055
Board of Education	75,613	81,143	77,804	3,339
Administration	1,513,669	1,528,676	1,519,317	9,359
Fiscal	558,493	517,023	505,330	11,693
Operation and Maintenance of Plant	2,585,780	2,397,978	2,294,675	103,303
Pupil Transportation	919,341	1,054,583	1,016,236	38,347
Extracurricular Activities	514,606	428,078	424,871	3,207
<i>Total Disbursements</i>	<u>17,446,500</u>	<u>17,179,319</u>	<u>16,800,960</u>	<u>378,359</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>33,892</u>	<u>511,822</u>	<u>846,425</u>	<u>334,603</u>
Other Financing Sources (Uses)				
Proceeds from the sale of Capital Assets	6,000	3,000	4,366	1,366
Other Financing Sources	20,000	10,000	9,209	(791)
<i>Total Other Financing Sources (Uses)</i>	<u>26,000</u>	<u>13,000</u>	<u>13,575</u>	<u>575</u>
Net Change in Fund Balances	59,892	524,822	860,000	335,178
Fund Balances - Beginning of Year	779,200	779,200	779,200	0
Prior Year Encumbrances Appropriated	<u>255,685</u>	<u>255,685</u>	<u>255,685</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,094,777</u>	<u>\$ 1,559,707</u>	<u>\$ 1,894,885</u>	<u>\$ 335,178</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Fund Net Assets-Cash Basis
Proprietary Funds
June 30, 2005

	<u>Business - Type</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>
	<u>Enterprise</u>	<u>Internal Service</u>
Assets		
Cash and Cash Equivalents	\$ 141,087	\$ 657,371
<i>Total Assets</i>	<u>\$ 141,087</u>	<u>\$ 657,371</u>
Net Assets		
Unrestricted	\$ 141,087	\$ 657,371
<i>Total Net Assets</i>	<u>\$ 141,087</u>	<u>\$ 657,371</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets-
Cash Basis
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activity			Governmental Activity
	Food Service Fund	Uniform School Supplies Fund	Total Enterprise Funds	Internal Service Fund
Operating Receipts				
Food Services	\$ 639,166	\$ 0	\$ 639,166	\$ 0
Charges for Services	0	110,990	110,990	0
<i>Total Operating Receipts</i>	<u>639,166</u>	<u>110,990</u>	<u>750,156</u>	<u>0</u>
Operating Disbursements				
Salaries	305,244	0	305,244	0
Fringe Benefits	86,277	0	86,277	0
Purchased Services	61,227	0	61,227	0
Materials and Supplies	328,704	131,107	459,811	0
Capital Outlay	6,837	0	6,837	221,605
<i>Total Operating Expenses</i>	<u>788,289</u>	<u>131,107</u>	<u>919,396</u>	<u>221,605</u>
<i>Operating Income (Loss)</i>	<u>(149,123)</u>	<u>(20,117)</u>	<u>(169,240)</u>	<u>(221,605)</u>
Non-Operating Revenues (Expenses)				
Federal and State Subsidies	178,171	0	178,171	0
Interest	2,904	0	2,904	7,403
Miscellaneous	0	0	0	5,227
<i>Total Non-Operating Revenues (Expenses)</i>	<u>181,075</u>	<u>0</u>	<u>181,075</u>	<u>12,630</u>
<i>Change in Net Assets</i>	31,952	(20,117)	11,835	(208,975)
<i>Net Assets - Beginning of Year</i>	<u>111,213</u>	<u>18,039</u>	<u>129,252</u>	<u>866,346</u>
<i>Net Assets - End of Year</i>	<u>\$ 143,165</u>	<u>\$ (2,078)</u>	<u>\$ 141,087</u>	<u>\$ 657,371</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Fiduciary Net Assets - Cash Basis-Proprietary Funds
June 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity Pooled in Cash and Cash Equivalents	<u>\$ 1,338,735</u>	<u>\$ 33,334</u>
<i>Total Assets</i>	<u><u>\$ 1,338,735</u></u>	<u><u>\$ 33,334</u></u>
Net Assets		
Unrestricted	<u>\$ 1,338,735</u>	<u>\$ 33,334</u>
<i>Total Net Assets</i>	<u><u>\$ 1,338,735</u></u>	<u><u>\$ 33,334</u></u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
Additions	
Investment Income	\$ 36,482
Miscellaneous	101,824
Refund of Prior Year Expenditures	500
Total Additions	138,806
Deductions	
Purchased Services	5,000
Other Objects	27,410
Total Deductions	32,410
<i>Change in Net Assets</i>	106,396
<i>Net Assets - Beginning of Year</i>	1,232,339
<i>Net Assets - End of Year</i>	\$ 1,338,735

See accompanying notes to the basic financial statements.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Shawnee Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected, five-member Board. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls the Local School District staffed by 157 certified teaching personnel and 114 non-certified support personnel to provide services to 2,670 students.

The School District is located in Allen County, and includes the Village of Ft. Shawnee and portions of Shawnee and American Townships.

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

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

The following activities are included within the reporting entity:

Parochial Schools – Within the School District boundaries, Lima Central Catholic High School and St. Charles Elementary School are operated through the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activity of these State monies by the School District are reflected in a special revenue fund for financial reporting purposes.

The School District is associated with the Northwest Ohio Area Computer Services Cooperative, which is a joint venture, and the Apollo Joint Vocational School which is a joint governed organization. Information about these organizations is presented in Note 11 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following are the more significant of the School District's accounting policies:

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School district. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts 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 and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts and expenditures/disbursements. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental funds:

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Permanent Improvement Fund	This fund accounts for special revenues used for the operation and maintenance of the district's instructional facilities.

Proprietary Fund/Business-Type Activities

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary fund accounts for the uniform school supplies and lunch room funds.

Enterprise funds are used to account for business-like activities provided by the School District. The intent of the School District is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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

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

Tax Budget

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

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

Estimated Resources

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

Appropriations

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest are reported as disbursements when paid.

H. Intergovernmental Receipts

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant is received.

I. Inventory and Prepaid Items

The school district reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

J. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The school district recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

L. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

M. Receipts and Expenditures

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or other obligations 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 market 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 market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one 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 School district, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2005, the District had \$1,200 in undeposited cash on hand which is included in the fund balance.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

At fiscal year end, the carrying amount of the District's deposits was \$21,535 and the bank balance was \$354,607. Of the bank balance, \$100,000 was covered by federal depository insurance and \$254,607 was uninsured. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at fair value. As of June 30, 2005, the district had the following investments:

	Value as of 06/30/05	% of Investment Total	Maturities	
			0-1 Year	1-5 Years
Money Market Funds	\$ 216,849	4.56%	\$ 216,849	\$ 0
US Treasuries/Agency Bonds	4,535,897	95.44%	0	4,535,897
Total Investments	<u>\$4,752,746</u>	<u>100.00%</u>	<u>\$ 216,849</u>	<u>\$ 4,535,897</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute.

Of the school's investments in repurchase agreements, underlying securities in the form of Federal Home Loan Bank and Federal National Mortgage Association Notes with a Standard and Poor credit rating of AAA/Stable are held by the investment's counterparty, not in the name of the School District.

Concentration Risk

The District policy places no limit on the amount the district may invest in any one issuer. It is required that the District's portfolio remain sufficiently liquid to meet reasonably anticipated operational requirements. More than 4.5 percent of the District's investments are in Money Market funds. The remaining 95.44% is invested in US Treasury/Agency bonds.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First half distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2005 represent the collection of calendar year 2004 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2005 were levied after April 1, 2004 on the assessed value listed as of the prior January 1, the lien date. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in Calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Allen and Auglaize Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

NOTE 6 - RISK MANAGEMENT

1. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with Indiana Insurance Company for property insurance and Great American Alliance Insurance for general liability insurance.

Professional liability and vehicles are protected by the Nationwide Insurance Company. Settled claims have not exceeded the commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 6 - RISK MANAGEMENT (continued)

2. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

3. Health Care Benefits

The School District participates in the Ohio Mid-Eastern Regional Education Service Agency, a consortium of school districts and other political subdivisions. The School District pays monthly premiums to the Agency for employee medical, dental and vision insurance coverage. The Agency is responsible for the management and operations of the program. Upon withdrawal from the Agency, a participant is responsible for the payment of all Agency liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. 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 the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$488,376, \$503,430, and \$474,394, respectively; 100 percent has been contributed for the fiscal years 2005, 2004 and 2003.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

The school district contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits based on eligible service credit to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad St., Columbus, OH 43215-3371 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 Combine 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. If an active Plan member should die before retirement, the eligible spouse and dependents 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.

For the fiscal year ended June 30, 2004 (the latest information available), plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and Shawnee Local School District are established and may be amended by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,355,590, \$1,288,741, and \$1,112,584, respectively; 100 percent has been contributed for the fiscal years 2005, 2004 and 2003.

C. Social Security System

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 - POST EMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Plan or Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

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 (the latest information available).

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

At June 30, 2004, the 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 2005, 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. The target level for the health care reserve is 150 percent of annual health care disbursements. For the School District, the amount to fund health care benefits, including the surcharge, was \$171,281 for the fiscal year 2005.

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.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Outstanding 6/30/04	Additions	Deductions	Outstanding 6/30/05
Bond anticipation notes	\$ 208,000	\$ 0	\$ 208,000	\$ 0

In fiscal year 2005 the school district has paid the bond anticipation note in full. The school district currently has no debt.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 - STATUTORY RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal years 2005.

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Carry Over Balance, 6/30/2004	\$ (37,566)	\$ 80,858	\$ 490,091
Required Set-Aside	377,954	377,954	0
Qualifying Expenditures	<u>(189,923)</u>	<u>(403,971)</u>	<u>0</u>
Excess Available for Carry-over to Subsequent Year	<u>\$150,465</u>	<u>\$ 54,841</u>	<u>\$ 490,091</u>

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Mary's and Wapakoneta. 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 school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2005, the School District paid \$20,817 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

Apollo Joint Vocational School - The Apollo Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the eleven participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Joint Vocational School, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806

NOTE 12 - GROUP PURCHASING POOL

Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 13 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. State School Funding Decision

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

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

C. Litigation

The School District is a defendant in various lawsuits wherein substantial amounts are claimed. In the opinion of the School District's legal counsel, these suits are without substantial merit and should not result in judgments which in the aggregate would have a material adverse effect on the School District's financial statements.

D. Valero

In December of 2003, the School District was informed the Premcor Lima Refinery (nka Valero) had overstated its value of inventory included in the calculation of personal property taxes for the past several years. The School District is potentially liable to refund the overpayments and will see a reduction in the amount of personal property tax revenue in the future. It is estimated that the District's loss will be approximately \$173,000.

NOTE 14 – ACCOUNTABILITY AND COMPLIANCE

Section 5705.10, Revised Code, states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay obligations of the fund or funds carrying the deficit cash balance. The following fund had a deficit cash balance at June 30, 2005:

<u>Fund</u>	<u>Deficit Cash Balance</u>
Uniform School Supplies	\$2,078

We're Ready For Your Future

November 8, 2005

The Board of Education
Shawnee Local School District
Lima, Ohio 45806

INDEPENDENT AUDITORS' 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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Shawnee Local School District as of and for the year ended June 30, 2005, which collectively comprise Shawnee Local School District's basic financial statements and have issued our report thereon dated November 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Shawnee Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shawnee Local School District's 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-01. We also noted certain immaterial instances of noncompliance that we have reported to management of Shawnee Local School District in a separate letter dated November 8, 2005.

This report is intended solely for the information and use of the Board of Education, management, 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.

Rea & Associates, Inc.

We're Ready For Your Future

November 8, 2005

The Board of Education
Shawnee Local School District
Lima, Ohio 45806

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

Compliance

We have audited the compliance of Shawnee Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Shawnee Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shawnee Local School District's management. Our responsibility is to express an opinion on Shawnee Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 Shawnee Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shawnee Local School District's compliance with those requirements.

In our opinion, Shawnee Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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.

Schedule of Expenditures of Federal Awards – Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Shawnee Local School District as of and for the year ended June 30, 2005, which collectively comprise Shawnee Local School District's basic financial statements, and have issued our report thereon dated November 8, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A0133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, 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.

Hea & Associates, Inc.

SHAWNEE LOCAL SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards-Cash Basis
For the Fiscal Year Ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Receipts</u>	<u>Federal Disbursements</u>	<u>Non-cash Transactions</u>
U.S. Department of Education					
<i>(Passed through Ohio Department of Education):</i>					
Title 1	84.010	C1S1-2004	\$ 38,163	\$ 18,201	\$ 0
Title 1	84.010	C1S1-2005	191,545	193,214	0
Title 1 - JDC	84.010	C1SD-2004	6,015	6,169	0
Title 1 - JDC	84.010	C1SD-2005	57,780	52,887	0
			<u>293,503</u>	<u>270,471</u>	<u>0</u>
IDEA-B	84.027	6BSF-2004	67,823	33,394	0
IDEA-B	84.027	6BSF-2005	491,994	491,994	0
			<u>559,817</u>	<u>525,388</u>	<u>0</u>
Title V	84.298	C2S1-2004	4,980	2,129	0
Title V	84.298	C2S1-2005	11,599	12,390	0
			<u>16,579</u>	<u>14,519</u>	<u>0</u>
Title IV Safe/Drug Free	84.186	DRS1-2005	9,192	9,192	0
Title II-A Improving Teacher Quality	84.367	TRS1-2004	9,988	8,450	0
Title II-A Improving Teacher Quality	84.367	TRS1-2005	66,955	63,795	0
			<u>76,943</u>	<u>72,245</u>	<u>0</u>
Advanced Placement Fee Program	84.330	AVTF-2005	52	52	0
Title II-D	84.318	TJS1-2004	(945)	(364)	0
Raising the Bar	84.318	TJS1-2005	2,870	2,427	0
			<u>1,925</u>	<u>2,063</u>	<u>0</u>
Total U.S. Department of Education			<u>958,011</u>	<u>893,930</u>	<u>0</u>
U.S. Department of Agriculture					
<i>(Passed through Ohio Department of Education):</i>					
Food Distribution Program	10.550		40,825	0	40,825
School Lunch Program	10.555	LLP4-2004 & LLP4-2005	171,765	171,765	0
Total Department of Agriculture-Nutrition Cluster			<u>212,590</u>	<u>171,765</u>	<u>40,825</u>
Total Federal Financial Assistance			<u>\$ 1,170,601</u>	<u>\$ 1,065,695</u>	<u>\$ 40,825</u>

SHAWNEE LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

OMB Circular A-133, Section .505

June 30, 2005

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) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(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):	Special Education Cluster, CFDA #84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS
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Finding 2005-001 Ohio Administrative Code Section 117-2-03 (repeat of 2004-001)

Ohio Admin. Code Section 117-2-03 states the School District is to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2005, the District reported its financial statements on the cash basis of accounting with a GASB 34 presentation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, fund liabilities, equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

3. Findings and Questioned Costs for Federal Awards

None were noted

SHAWNEE LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings

June 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Financial Statements – Should be prepared in accordance with generally accepted accounting principles.	No	Not Corrected – The District plans to continue reporting on the cash basis.



**Auditor of State
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SHAWNEE LOCAL SCHOOL DISTRICT

ALLEN 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
FEBRUARY 9, 2006**