



**Auditor of State
Betty Montgomery**

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Shadyside Local School District
Belmont County
3890 Lincoln Avenue
Shadyside, Ohio 43947

To the Board of Education:

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

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

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

As described in Note 3, during the year ended June 30, 2004, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

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

Betty Montgomery
Auditor of State

March 18, 2005

Shadyside Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Shadyside Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- In total, net assets decreased \$1,563,410.
- General revenues accounted for \$3,914,977 in revenue or 71 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$1,577,701 or 29 percent of total revenues of \$5,492,678.
- Total assets of governmental activities decreased \$325,800 primarily due to a declining cash balance offset by additions to capital assets.
- The School District had \$7,056,088 in expenses related to governmental activities; only \$1,577,701 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$3,914,977 were not adequate to provide for these programs.
- The School District has two major funds; the General Fund, and the Permanent Improvement Capital Projects Fund. The General Fund had \$4,529,036 in revenues and \$5,862,128 in expenditures. The General Fund's balance decreased \$992,304. The Permanent Improvement Fund had \$341,190 in revenues and \$740,101 in expenditures. The Permanent Improvement Fund's balance decreased \$450,047.

Using this Annual Financial Report

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

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 as the School District's most significant funds with all other non-major funds presented in total in one column.

Shadyside Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, 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 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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 restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, debt service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, and the Permanent Improvement Capital Projects Fund.

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

Shadyside Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$3,324,927	\$4,005,414
Capital Assets	1,487,640	1,132,953
Total Assets	4,812,567	5,138,367
Liabilities		
Long-Term Liabilities	1,115,623	879,280
Other Liabilities	3,240,897	2,239,630
Total Liabilities	4,356,520	3,118,910
Net Assets		
Invested in Capital Assets, Net of Debt	1,166,470	999,194
Restricted	525,525	1,294,500
Unrestricted	(1,235,948)	(274,237)
Total Net Assets	\$456,047	\$2,019,457

Total assets decreased \$325,800. Current assets decreased by \$680,487. The decrease resulted from declining cash balances and a decrease in intergovernmental receivables from fiscal year 2003 due to Federal funds being received in full during fiscal year 2004.

Total liabilities increased \$1,237,610. The primary reasons for this increase was the District entering into new capital leases in fiscal year 2004, as well as increases in accounts payable, accrued wages and benefits and intergovernmental payables, which were slightly offset by a decrease in claims payable and a decrease in deferred revenue due to a large amount available as an advance in fiscal year 2003, see property tax (Note 7) for details.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Shadyside Local School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future

Shadyside Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities
	2004
Revenues	
Program Revenues	
Charges for Services and Sales	\$870,901
Operating Grants and Contributions	697,037
Capital Grants and Contributions	9,763
Total Program Revenues	1,577,701
General Revenues	
Property Taxes	1,387,194
Grants and Entitlements not Restricted to Specific Programs	2,492,453
Investments	13,373
Miscellaneous	21,957
Total General Revenues	3,914,977
Total Revenues	5,492,678
Program Expenses	
Instruction	
Regular	3,474,747
Special	710,521
Support Services	
Pupil	316,022
Instructional Staff	261,211
Board of Education, Administration, and Fiscal	869,189
Operation and Maintenance of Plant	762,303
Pupil Transportation	243,574
Food Service Operations	162,315
Extracurricular Activities	238,397
Interest and Fiscal Charges	17,809
Total Expenses	7,056,088
Change in Net Assets	(\$1,563,410)

In 2004, 25 percent of the School District's revenues were from property taxes and 45 percent were from unrestricted grants and entitlements.

Shadyside Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Program revenues accounted for 29 percent of the School District's revenues in fiscal year 2004. These revenues consist of tuition and fees, charges for providing lunches to students, grants for specified purposes, and contributions and donations.

Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 83 percent is for regular instruction, 17 percent for special instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3
Governmental Activities

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
Instruction		
Regular	\$3,474,747	\$2,714,019
Special	710,521	236,223
Support Services		
Pupil	316,022	297,338
Instructional Staff	261,211	210,177
Board of Education, Administration and Fiscal	869,189	827,362
Operation and Maintenance of Plant	762,303	760,962
Pupil Transportation	243,574	235,119
Food Service Operations	162,315	39,288
Extracurricular Activities	238,397	140,090
Interest and Fiscal Charges	17,809	17,809
Total Expenses	<u><u>\$7,056,088</u></u>	<u><u>\$5,478,387</u></u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 56 percent of expenses are supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,661,249 and expenditures of \$7,502,866. As apparent, the School District's expenditures exceeded revenues during the fiscal year, see the economic factors section of the management's discussion and analysis for the District's response to the declining General Fund balance.

Shadyside Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

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 2004 the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004 the School District had \$1,487,640 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. During fiscal year 2004, the School District had additions to capital assets for roofing repairs, technology equipment, copying equipment, and school buses. Table 4 shows fiscal year 2004 balances compared to 2003

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$42,289	\$42,289
Land Improvements	370,002	405,471
Buildings and Improvements	559,901	362,638
Furniture and Equipment	430,448	276,181
Vehicles	85,000	46,374
Totals	\$1,487,640	\$1,132,953

See note 9 for more detailed information of the School District's capital assets.

Shadyside Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt

At June 30, 2004, the School District had \$100,615 in energy conservation loans outstanding and \$220,555 in capital leases outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Energy Conservation Loan	\$100,615	\$108,009
Capital Leases	<u>220,555</u>	<u>25,750</u>
Totals	<u><u>\$321,170</u></u>	<u><u>\$133,759</u></u>

See Note 15 for more information regarding debt.

Economic Factors

The Shadyside Local School District is currently experiencing financial difficulty as the most recent Board adopted financial forecast represents. The School District relies heavily on state funds and our local taxpayers. Shadyside Local School District was placed in Fiscal Caution on April 12, 2004. At this time the School District had to submit a Fiscal Caution proposal to resolve the projected deficit. This plan included an additional levy that has since failed, transfer of permanent improvement funds, an agreed upon wage freeze with the Administration and School Employees Association and implementing an expenditure reduction plan.

During Fiscal Year 2004, we received funds from the Federal Emergency Repair Grant to replace our Leona Middle School roof and repair part of the roof at the High School. The Shadyside Local School District, effective January 1, 2005, has changed their Insurance Network in an effort to reduce costs.

The Shadyside Local School District is currently working to resolve an estimated \$255,000 deficit for FY2006, per the Board approved Financial Forecast of October 27, 2004.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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 Melissa Visnic, Treasurer/CFO at Shadyside Local School District, 3890 Lincoln Avenue, Shadyside, Ohio 43947.

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Shadyside Local School District
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$768,401
Cash and Cash Equivalents with Fiscal Agents	11,987
Accounts Receivable	8,191
Intergovernmental Receivable	15,775
Prepaid Items	113,053
Materials and Supplies Inventory	2,726
Property Taxes Receivable	2,404,794
Non-Depreciable Capital Assets	42,289
Depreciable Capital Assets, Net	<u>1,445,351</u>
<i>Total Assets</i>	<u>4,812,567</u>
Liabilities	
Accounts Payable	57,860
Accrued Wages and Benefits Payable	622,177
Intergovernmental Payable	204,719
Matured Severance Payable	8,616
Claims Payable	58,015
Deferred Revenue	2,289,510
Long-Term Liabilities:	
Due Within One Year	88,463
Due In More Than One Year	<u>1,027,160</u>
<i>Total Liabilities</i>	<u>4,356,520</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,166,470
Restricted for:	
Capital Projects	445,418
Other Purposes	80,107
Unrestricted (Deficit)	<u>(1,235,948)</u>
<i>Total Net Assets</i>	<u><u>\$456,047</u></u>

See accompanying notes to the basic financial statements

Shadyside Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$3,474,747	\$667,722	\$92,799	\$207
Special	710,521	0	474,298	0
Support Services:				
Pupil	316,022	0	18,684	0
Instructional Staff	261,211	0	49,933	1,101
Board of Education	26,460	0	0	0
Administration	605,463	38,030	1,850	0
Fiscal	237,266	0	1,947	0
Operation and Maintenance of Plant	762,303	618	723	0
Pupil Transportation	243,574	0	0	8,455
Food Service Operations	162,315	66,224	56,803	0
Extracurricular Activities	238,397	98,307	0	0
Interest and Fiscal Charges	17,809	0	0	0
Total Governmental Activities	\$7,056,088	\$870,901	\$697,037	\$9,763

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Capital Projects
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets
Governmental Activities
(\$2,714,019)
(236,223)
(297,338)
(210,177)
(26,460)
(565,583)
(235,319)
(760,962)
(235,119)
(39,288)
(140,090)
(17,809)
<u>(5,478,387)</u>
1,186,277
200,917
2,492,453
13,373
21,957
<u>3,914,977</u>
(1,563,410)
<u>2,019,457</u>
<u><u>\$456,047</u></u>

Shadyside Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$180,617	\$469,389	\$71,030	\$721,036
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	47,365	0	0	47,365
Receivables:				
Property Taxes	2,071,557	333,237	0	2,404,794
Accounts	8,191	0	0	8,191
Intergovernmental	15,775	0	0	15,775
Interfund	41,754	0	0	41,754
Prepaid Items	105,764	0	7,289	113,053
Materials and Supplies Inventory	1,338	0	1,388	2,726
<i>Total Assets</i>	<u>\$2,472,361</u>	<u>\$802,626</u>	<u>\$79,707</u>	<u>\$3,354,694</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$7,195	\$49,044	\$1,621	\$57,860
Accrued Wages and Benefits	587,810	0	34,367	622,177
Interfund Payable	0	0	41,754	41,754
Intergovernmental Payable	158,676	0	2,036	160,712
Matured Severance Payable	8,616	0	0	8,616
Deferred Revenue	2,035,216	320,076	11,854	2,367,146
<i>Total Liabilities</i>	<u>2,797,513</u>	<u>369,120</u>	<u>91,632</u>	<u>3,258,265</u>
Fund Balances (Deficit)				
Reserved for Encumbrances	28,475	23,763	7,856	60,094
Reserved for Property Taxes	36,341	13,161	0	49,502
Reserved for Bus Purchases	47,365	0	0	47,365
Unreserved, Undesignated, Reported in:				
General Fund	(437,333)	0	0	(437,333)
Special Revenue Funds	0	0	(20,026)	(20,026)
Capital Projects Funds	0	396,582	245	396,827
<i>Total Fund Balances</i>	<u>(325,152)</u>	<u>433,506</u>	<u>(11,925)</u>	<u>96,429</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,472,361</u>	<u>\$802,626</u>	<u>\$79,707</u>	<u>\$3,354,694</u>

See accompanying notes to the basic financial statements

Shadyside Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004*

Total Governmental Fund Balances \$96,429

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

Capital assets used in governmental activities are not financial
resources and therefore are deferred in the funds. 1,487,640

Other long-term assets, property taxes, are not available to pay
for current period expenditures and therefore are deferred in the funds. 77,636

An internal service fund is used by management to charge the costs of
insurance to individual funds. The assets and liabilities of the internal
service fund are included in governmental activities in the statement of net assets. (46,028)

Intergovernmental payable includes contractually required pension
contributions not expected to be paid with available resources,
and therefore, are not reported in the funds. (44,007)

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds:

Compensated Absences	794,453
Energy Conservation Loan	100,615
Capital Leases	<u>220,555</u>

Total (1,115,623)

Net Assets of Governmental Activities \$456,047

See accompanying notes to the basic financial statements

Shadyside Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,181,960	\$200,507	\$	\$1,382,467
Intergovernmental	2,629,624	133,240	586,208	3,349,072
Interest	5,385	7,443	64	12,892
Tuition and Fees	666,652	0	0	666,652
Extracurricular Activities	0	0	137,407	137,407
Rent	618	0	0	618
Contributions and Donations	22,840	0	1,120	23,960
Charges for Services	0	0	66,224	66,224
Miscellaneous	21,957	0	0	21,957
<i>Total Revenues</i>	<u>4,529,036</u>	<u>341,190</u>	<u>791,023</u>	<u>5,661,249</u>
Expenditures				
Current:				
Instruction:				
Regular	3,154,669	139,427	71,973	3,366,069
Special	469,677	1,829	226,074	697,580
Support Services:				
Pupil	293,989	0	19,229	313,218
Instructional Staff	182,478	72	67,144	249,694
Board of Education	26,375	0	0	26,375
Administration	553,572	3,058	36,888	593,518
Fiscal	226,752	8,177	2,000	236,929
Operation and Maintenance of Plant	545,251	243,199	743	789,193
Pupil Transportation	265,577	11,508	0	277,085
Food Service Operations	0	0	151,446	151,446
Extracurricular Activities	118,038	0	90,442	208,480
Capital Outlay	0	262,501	221,516	484,017
Debt Service:				
Principal Retirement	25,750	58,309	7,394	91,453
Interest and Fiscal Charges	0	12,021	5,788	17,809
<i>Total Expenditures</i>	<u>5,862,128</u>	<u>740,101</u>	<u>900,637</u>	<u>7,502,866</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>(1,333,092)</u>	<u>(398,911)</u>	<u>(109,614)</u>	<u>(1,841,617)</u>
Other Financing Sources (Uses)				
Sale of Assets	23,970	0	0	23,970
Inception of Capital Lease	0	278,864	0	278,864
Transfers In	330,000	0	13,182	343,182
Transfers Out	(13,182)	(330,000)	0	(343,182)
<i>Total Other Financing Sources (Uses)</i>	<u>340,788</u>	<u>(51,136)</u>	<u>13,182</u>	<u>302,834</u>
<i>Net Change in Fund Balances</i>	(992,304)	(450,047)	(96,432)	(1,538,783)
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>667,152</u>	<u>883,553</u>	<u>84,507</u>	<u>1,635,212</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$325,152)</u>	<u>\$433,506</u>	<u>(\$11,925)</u>	<u>\$96,429</u>

See accompanying notes to the basic financial statements

Shadyside Local School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$1,538,783)

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

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

Capital Outlay	609,030	
Depreciation	(248,355)	
Total	360,675	360,675

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the net loss on the disposal of capital assets.

(163)

Capital assets removed from the capital asset account from the refinance and trade in of a capital leased asset on the statement of net assets results in a net reduction of capital asset additions on the statement of activities.

(5,825)

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

Property Taxes	4,727	
Grants	(173,779)	
Total	(169,052)	(169,052)

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

Energy Conservation Loans	7,394	
Capital Leases	84,059	
Total	91,453	91,453

Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities.

(278,864)

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

Intergovernmental Payable	(1,490)	
Compensated Absences Payable	(48,932)	
Total	(50,422)	(50,422)

The internal service fund used by management to charge the costs of insurance to individual funds is included in the statement of activities and not on the governmental fund statements. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net expenses of the internal service fund is allocated among governmental activities.

27,571

Changes in Net Assets of Governmental Activities

(\$1,563,410)

See accompanying notes to the basic financial statements

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

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,975,000	\$1,975,000	\$1,920,170	(\$54,830)
Intergovernmental	2,575,557	2,449,955	2,613,849	163,894
Interest	16,204	16,204	5,385	(10,819)
Tuition and Fees	568,335	568,335	658,461	90,126
Rent	600	600	618	18
Contributions and Donations	0	0	22,840	22,840
Miscellaneous	28,000	28,000	21,957	(6,043)
<i>Total Revenues</i>	<u>5,163,696</u>	<u>5,038,094</u>	<u>5,243,280</u>	<u>205,186</u>
Expenditures				
Current:				
Instruction:				
Regular	3,109,117	3,157,566	3,170,641	(13,075)
Special	401,660	428,660	481,586	(52,926)
Support Services:				
Pupils	273,566	273,566	292,520	(18,954)
Instructional Staff	196,122	196,222	183,293	12,929
Board of Education	31,319	31,319	27,780	3,539
Administration	541,328	541,328	539,364	1,964
Fiscal	244,462	244,462	227,696	16,766
Operation and Maintenance of Plant	542,876	542,876	554,526	(11,650)
Pupil Transportation	263,141	263,141	267,498	(4,357)
Extracurricular Activities	83,390	83,390	118,410	(35,020)
<i>Total Expenditures</i>	<u>5,686,981</u>	<u>5,762,530</u>	<u>5,863,314</u>	<u>(100,784)</u>
Excess of Revenues Over/(Under) Expenditures	<u>(523,285)</u>	<u>(724,436)</u>	<u>(620,034)</u>	<u>104,402</u>
Other Financing Sources (Uses)				
Sale of Assets	0	0	23,970	23,970
Transfers In	0	330,000	330,000	0
Transfers Out	(13,183)	(13,183)	(13,182)	1
Advances Out	(14,300)	(14,300)	(25,045)	(10,745)
<i>Total Other Financing Sources (Uses)</i>	<u>(27,483)</u>	<u>302,517</u>	<u>315,743</u>	<u>13,226</u>
<i>Net Change in Fund Balance</i>	<u>(550,768)</u>	<u>(421,919)</u>	<u>(304,291)</u>	<u>117,628</u>
<i>Fund Balance Beginning of Year</i>	371,220	371,220	371,220	0
Prior Year Encumbrances Appropriated	<u>74,602</u>	<u>74,602</u>	<u>74,602</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>(\$104,946)</u></u>	<u><u>\$23,903</u></u>	<u><u>\$141,531</u></u>	<u><u>\$117,628</u></u>

See accompanying notes to the basic financial statement:

Shadyside Local School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2004

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	\$11,987
Current Liabilities	
Claims Payable	<u>58,015</u>
Net Assets	
Unrestricted (Deficit)	<u>(46,028)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>(\$46,028)</u></u>

See accompanying notes to the basic financial statements

Shadyside Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	<u>Governmental</u> <u>Activity</u> <u>Internal Service</u> <u>Fund</u>
Operating Revenues	
Charges for Services	\$910,967
Miscellaneous	34,399
	<hr/>
<i>Total Operating Revenues</i>	945,366
	<hr/>
Operating Expenses	
Purchased Services	51,720
Claims	866,556
	<hr/>
<i>Total Operating Expenses</i>	918,276
	<hr/>
<i>Operating Income</i>	27,090
	<hr/>
Non-Operating Revenues	
Interest	481
	<hr/>
<i>Change in Net Assets</i>	27,571
	<hr/>
<i>Net Assets (Deficit) Beginning of Year</i>	(73,599)
	<hr/>
<i>Net Assets (Deficit) End of Year</i>	(\$46,028)
	<hr/> <hr/>

See accompanying notes to the basic financial statements

Shadyside Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$910,967
Cash Payments for Goods and Services	(51,720)
Cash Payments for Claims	(924,517)
Cash Payments from Other Operating Revenue	34,399
<i>Net Cash Used for Operating Activities</i>	<i>(30,871)</i>
Cash Flows from Investing Activities	
Interest	481
<i>Net Cash Provided by Investing Activities</i>	<i>481</i>
<i>Net Decrease in Cash and Cash Equivalents</i>	<i>(30,390)</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>42,377</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$11,987</i>
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating Income	\$27,090
Decrease in Liabilities:	
Claims Payable	(57,961)
<i>Net Cash Used for Operating Activities</i>	<i>(\$30,871)</i>
See accompanying notes to the basic financial statements	

Shadyside Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$30,169</u>
<i>Total Assets</i>	<u><u>\$30,169</u></u>
Liabilities	
Due to Students	<u>\$30,169</u>
<i>Total Liabilities</i>	<u><u>\$30,169</u></u>

See accompanying notes to the basic financial statements

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Shadyside 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 board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The first official body designated as the Shadyside Local Board of Education was formed on January 2, 1905. At that meeting, the clerk's salary was set at \$25.00 per year. The clerk was instructed to purchase a clerk's record. At the second meeting, the Librarian's salary was set at \$10.00 per year. A new building had been constructed prior to this time. Insurance was purchased to cover this structure in the amount of \$3,500 on the building and \$500 on the contents.

The School District is located in Belmont County. The Board controls the School District's four instructional/support facilities staff by 22 non-certificated employees, 66 certificated teaching personnel, and 5 administrators who provide services to 857 students and other community members.

On April 12, 2004, the School District was declared to be in a state of "Fiscal Caution" by the Ohio Department of Education. The School District was subsequently required to submit a fiscal caution proposal to the Ohio Department of Education to avoid a potential deficit in fiscal years 2004 and 2005. The proposal was submitted by the School District on July 1, 2004 and accepted by the Ohio Department of Education on July 7, 2004.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the Shadyside 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 organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. No separate governmental units meet the criteria for inclusion as a component unit.

The School District is involved with the Belmont-Harrison Vocational School, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), and the East Central Ohio Special Education Regional Resource Center (ECOSERRC), which are defined as jointly governed organizations, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan, which are defined as insurance purchasing pools, and the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, which is defined as a claims servicing pool. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

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. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for a permanent improvement levy used to finance various capital projects in the School District.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The School District has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, prescription drug, and dental claims.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The School District's only fiduciary funds are 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 fund accounts for student activities and assets held by the School District as an agent for outside activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the total net assets.

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

information about how the School District finances and meets the cash flow needs of its proprietary activity.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

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

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

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

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

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

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

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." The School District utilizes a self-insurance third party administrator to review and pay claims. Money held by the administrator is presented in the proprietary fund statement of net assets as "cash and cash equivalents with fiscal agents".

During fiscal year 2004, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2004.

Following Ohio statues, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$5,385, which includes \$3,739, assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets in governmental funds represent unexpended revenues restricted for the purchase of buses.

G. Prepaid Items

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

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

I. Capital Assets

The only capital assets of the School District are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand-five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Land Improvements	20 Years
Buildings and Improvements	50 Years
Furniture and Equipment	5-20 Years
Vehicles	8 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

L. Accrued Liabilities and Long-Term Obligations

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

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

M. Interfund Activity

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for bus purchases is for state funds required to be utilized for the purchase of school buses.

O. Net Assets

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

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not meeting this determination are reported as non-operating.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. Estimates

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

S. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the function level for the general fund and at the fund level for all other funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 – PRIOR PERIOD RESTATEMENTS AND CHANGE IN ACCOUNTING PRINCIPLES

Changes in Accounting Principles For the fiscal year ended June 30, 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," GASB No. 39, "Determining Whether Certain Organizations are Component Units," GASB No. 41, "Budgetary Comparison Schedules – Perspective Differences," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. This statement had no effect on the budgetary statements of the School District for fiscal year 2004.

GASB Statement No. 39 further defines the guidelines of GASB Statement No.14, "The Financial Reporting Entity." At June 30, 2003, there was no effect as a result of implementing GASB Statement 39.

Restatement of Fund Balances The implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Pemanent Improvement	Nonmajor Funds	Total
Fund Balances, June 30, 2003	\$659,369	\$883,553	\$84,507	\$1,627,429
Interpretation 6:				
Compensated Absences	7,783	0	0	7,783
Restated Fund Balances, June 30, 2003	<u>\$667,152</u>	<u>\$883,553</u>	<u>\$84,507</u>	<u>\$1,635,212</u>
GASB 34 Adjustments:				
Capital Assets				1,132,953
Internal Service Fund				(73,599)
Compensated Absences				(745,521)
Energy Conservation Loan Payable				(108,009)
Capital Leases Payable				(25,750)
Intergovernmental Payable				(42,517)
Deferred Revenue - Delinquent Taxes and Grants				246,688
Governmental Activities Net Assets, June 30, 2003				<u><u>\$2,019,457</u></u>

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

At June 30, 2004, the following funds had deficit fund balances:

	Deficit Fund Balance
General Fund	\$325,152
<u>Special Revenue Funds:</u>	
Food Service	\$53,179

The deficit in the General Fund was created by the application of generally accepted accounting principles. The primary cause of the deficit balance is liabilities for accrued wages and benefits. The deficit in the food service special revenue fund is due to cash advances, accrued liabilities, as well as a failure to adequately fund this program. This cash advance is reported as a payable to the General fund. In order to alleviate this deficit the District has cut staff hours, raised the cost of student lunches and eliminated the breakfast program

B. Statutory Compliance

The following funds had expenditures in excess of appropriations, contrary to section 5705.41(B), Revised Code:

	Excess
General Fund	
Regular Instruction	\$13,075
Special Instruction	\$52,926
Support Services - Pupils	\$18,954
Support Services - Operation and Maintenance of Plant	\$11,650
Support Service - Pupil Transportation	\$4,357
Extracurricular Activities	\$35,020
Special Revenue Funds:	
Food Service	\$11,626
Miscellaneous Local	\$10,800
Self-Insurance Internal Service Fund	\$111,904

The School District will monitor expenditures in the future to ensure they do not exceed total appropriations at the legal level of control.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided

Shadyside Local School District
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For the Fiscal Year Ended June 30, 2004

by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$992,304)
Revenue Accruals	714,244
Advance Out	(25,045)
Expenditure Accruals	85,265
Encumbrances	<u>(86,451)</u>
Budget Basis	<u><u>(\$304,291)</u></u>

NOTE 6 - CASH AND CASH EQUIVALENTS

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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Shadyside Local School District
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depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to payment of 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 (STAROhio);
7. Certain banker's 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; and,
8. Under limited circumstances, corporate debt interests rated in either the two highest rating classification by at least two nationally recognized rating agencies.

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

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

At June 30, 2004, the School District's internal service fund had a balance of \$11,987 with OME-RESA, a claims servicing pool (See Note 18). The money is held by the claims service in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB

Shadyside Local School District
Notes to the Basic Financial Statements
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Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan’s fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, Steubenville, Ohio 43695.

The following information classifies deposits by categories of risk as defined in GASB Statement 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

Deposits: At fiscal year end, the carrying amount of the School District's deposits were \$684,165 and the bank balance was \$843,885. Of the bank balance:

\$105,923 was covered by federal depository insurance; and

\$737,962 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution’s trust department or agent in the School District’s name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District’s investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities in physical or book entry form.

	<u>Fair Value</u>
STAROhio	<u><u>\$114,405</u></u>

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

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$798,570	\$0
STAROhio	(114,405)	114,405
GASB Statement 3	\$684,165	\$114,405

Shadyside Local School District
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For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. 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 revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. 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 Belmont County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2004 was \$36,341 in the General Fund and \$13,161 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$774,551 in the General Fund and \$132,784 in the Permanent Improvement Capital Projects Fund. The large decrease in the amount available as an advance at June 30, 2004 was due to the American Electric Power Burger Plant having made an early payment prior to June 30, 2003.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$60,698,760	72.6%	\$64,221,750	73.5%
Public Utility Personal	17,208,600	20.6%	18,209,730	20.9%
Tangible Personal	5,724,940	6.8%	4,913,750	5.6%
	\$83,632,300	100.0%	\$87,345,230	100.0%
Tax Rate per \$1,000 of assessed valuation	\$36.95		\$36.95	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	Amounts
CAFS	\$15,775

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS

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

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Nondepreciable Capital Assets:				
Land	\$42,289	\$0	\$0	\$42,289
Depreciable Capital Assets:				
Land Improvements	824,418	0	0	824,418
Buildings and Improvements	2,969,187	234,400	0	3,203,587
Furniture and Equipment	1,238,863	315,130	(64,181)	1,489,812
Vehicles	363,820	59,500	(6,000)	417,320
Total Depreciable Capital Assets	5,396,288	609,030	(70,181)	5,935,137
Accumulated Depreciation:				
Land Improvements	(418,947)	(35,469)	0	(454,416)
Buildings and Improvements	(2,606,549)	(37,137)	0	(2,643,686)
Furniture and Equipment	(962,682)	(154,875)	58,193	(1,059,364)
Vehicles	(317,446)	(20,874)	6,000	(332,320)
Total Accumulated Depreciation	(4,305,624)	(248,355)	64,193	(4,489,786)
Total Depreciable Capital Assets, Net	1,090,664	360,675	(5,988)	1,445,351
Governmental Capital Assets, Net	\$1,132,953	\$360,675	(\$5,988)	\$1,487,640

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$151,295
Special	5,696
Support Services:	
Pupil	996
Instructional Staff	9,123
Board of Education	85
Administration	11,427
Operation and Maintenance of Plant	4,098
Pupil Transportation	21,822
Extracurricular Activities	39,600
Food Service Operations	4,213
Total Depreciation Expense	\$248,355

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 18). The Shadyside Local School District contracted with the Ohio School Plan for liability, property, and fleet insurance. The liability policy has a liability per occurrence limit ranging from \$10,000 to \$1,000,000 and a \$3,000,000 aggregate annual limit. The property policy is a replacement cost policy with a total coverage of \$21,126,900. The fleet policy has a liability per occurrence of \$1,000,000.

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

Medical/surgical, prescription drug, life and dental insurance are offered to employees through a self-insurance internal service fund. The School District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool, consisting of fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The medical/surgical coverage is based on a usual, customary, and reasonable claim plan. There is a \$100 annual deductible per single or \$200 annual deductible per family for this portion of the coverage. The Board's share of the premiums for this coverage is \$313.89 for individual coverage per month and \$749.26 for family coverage per month which represents 90 percent of the total premium. The premium is paid from the fund that pays the salary of the covered employee. The District also provides major medical coverage that is 100 percent paid by the Board, for which monthly premiums are \$63.65 for family and \$28.09 for single coverage per month. Prescription drug premiums are \$301.79 per month, 100 percent paid by the Board, and requires a \$5 per prescription deductible to be paid by the employee. Premiums for the dental coverage are \$64.11 per month for family and single coverage and are 100 percent covered by the Board.

The claims liability of \$58,015 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past two fiscal years are as follows:

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at End <u>of Year</u>
2003	\$33,930	\$682,024	\$599,978	\$115,976
2004	\$115,976	\$866,556	\$924,517	\$58,015

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based

Shadyside Local School District
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on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares 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.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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 School District rate is 14 percent of annual covered payroll. A portion of the School 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. For fiscal year 2003, 8.17 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 required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$57,893, \$69,943, \$28,286, respectively; 43.81 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

Shadyside Local School District
Notes to the Basic Financial Statements
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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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established 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 pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$439,234, \$422,696, \$389,641, respectively; 82.78 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$8, made by the School District and \$1,577 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS retirees from the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$29,971 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$41,878.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Gross 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 receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 260 days do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for classified employees and 265 for certified employees.

For certified employees, upon retirement, payment is made for 30 percent of accumulated sick leave at 30 years; 29 percent of accumulated sick leave at 31 years, 28 percent of accumulated unused sick leave at 32 years; 27 percent of accumulated sick leave at 33 years; 26 percent of accumulated sick leave at 34

Shadyside Local School District
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years; and 25 percent of accumulated sick leave at 35 years. If an employee is eligible to retire at less than 30 years of credited service, severance will be calculated in the following manner:

Number of years credited service divided by 30 equaling the prorated factor
Prorated factor will then be multiplied by the 30 percent/30 years, (formula as stated above)

For classified employees, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 75 days with the remaining balance of days to be paid \$10 per day to the maximum of 250 days.

B. Other Insurance Benefits

Life insurance is provided in the amount of \$20,000 for all certified teachers and classified employees whose salary is at least \$15,000; \$15,000 for classified employees whose salary is less than \$15,000; and \$20,000 for classified employees whose salary is \$15,000 and up.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District has entered into capitalized leases for copying equipment. During fiscal year 2004, the School District entered into two capitalized leases, one for copying equipment and one for technology equipment. The new lease for copying equipment included an amount for the early retirement of the existing capital lease, and the existing equipment was taken on trade as part of the terms of the new lease agreement. Therefore, capitalized copying equipment is less than the amount of the outstanding capital lease liability in the amount of the difference between the book value of the traded assets and the amount received for retirement of the existing lease.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in government-wide statements governmental activities in the amount of \$260,719, which is equal to the present value of the minimum lease payments, net of the difference between the book value of the traded assets and the amount received for retirement of the existing lease, at the of acquisition. A corresponding liability, net of the difference between the book value of the traded assets and the amount received for retirement of the existing lease, was recorded in the government wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$219,042. Principal payments in fiscal year 2004 totaled \$84,059, in the governmental funds.

Future minimum lease payments through 2009 are as follows:

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$72,419	\$13,997
2006	77,664	8,752
2007	25,999	6,172
2008	28,866	3,306
2009	15,607	481
Total	<u>\$220,555</u>	<u>\$32,708</u>

NOTE 15 - LONG - TERM OBLIGATIONS

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

	Principal			Principal	Amounts
	Outstanding 6/30/03	Additions	Deductions	Outstanding 6/30/04	Due In One Year
Energy Conservation Loan	\$108,009	\$0	\$7,394	\$100,615	\$7,816
Capital Leases	25,750	278,864	84,059	220,555	72,419
Compensated Absences	745,521	264,938	216,006	794,453	8,228
Total General Long-Term Obligations	<u>\$879,280</u>	<u>\$543,802</u>	<u>\$307,459</u>	<u>\$1,115,623</u>	<u>\$88,463</u>

Capital leases are paid from the General and the Permanent Improvement Capital Projects Funds. Compensated absences are paid from the General, Food Service, and Miscellaneous Federal Grants Funds.

During 1999, the School District issued \$134,000 in unvoted general obligation notes. The notes were issued for a fifteen year period with final maturity during fiscal year 2014. The interest rate on the notes is 5.36 percent. The loan will be repaid from energy savings realized from the energy conservation measures transferred from the General Fund to the Debt Service Fund.

Principal and interest requirements to retire the energy conservation loan outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$7,816	\$5,366	\$13,182
2006	8,247	4,935	13,182
2007	8,701	4,481	13,182
2008	9,169	4,013	13,182
2009	10,201	2,909	13,110
2010-2014	<u>56,481</u>	<u>9,462</u>	<u>65,943</u>
Total	<u>\$100,615</u>	<u>\$31,166</u>	<u>\$131,781</u>

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The School District's overall legal debt margin was \$7,861,071, with an unvoted debt margin of \$87,345 at June 30, 2004.

NOTE 16 - INTERNAL BALANCES AND TRANSFERS

Interfund balances at June 30, 2004 consisted of the following individual interfund receivables and payables:

	<u>Interfund Receivable</u>
<u>Interfund Payable</u>	<u>General Fund</u>
Other Nonmajor Governmental	<u>\$41,754</u>

The loan to the Food Service Special Revenue Fund was made to support the cafeteria program. The School District has increased lunch prices, reduced staff and eliminated the breakfast program to increase revenue for the food service program.

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Transfers from</u>	Transfers to		
	General Fund	Other Non-major Governmental	Total
General Fund	\$0	\$13,182	\$13,182
Permanent Improvement Fund	330,000	0	330,000
Total	\$330,000	\$13,182	\$343,182

The above mentioned Transfers From/To were used to move receipts from the General Fund to the Debt Service Fund for repayment of the energy conservation loan as debt service payments come due, and to move permanent improvement levy tax receipts from the Permanent Improvement Capital Projects Fund to the General Fund. This transfer was authorized by the Belmont County Court of Common Pleas in order to avert a deficit in the School District's General Fund.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Belmont-Harrison Vocational School – The Belmont-Harrison 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 seven participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2004, the School District made no contributions to the Vocational School District. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, Monroe, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2004, the total amount paid to OME-RESA from the School District was \$23,231. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

East Central Ohio Special Education Regional Resource Center (ECOSERRC) – The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECOSERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECOSERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECOSERRC.

NOTE 18 – PUBLIC ENTITY POOLS

A. Insurance Purchasing Pools

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

Ohio School Plan – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

B. Claims Servicing Pool

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan – The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the OME-RESA's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Ohio Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation refund monies remaining in the budget reserve.

During fiscal year 2004, the Board of Education passed a resolution to expend all of the previously reserved amounts for the budget reserve pursuant to State statute.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0	\$21,482
Current Year Set-aside Requirement	112,421	112,421	0
Prior Year Allowable Carry Forward	(60,268)	0	0
Current Year Offsets	0	(453,345)	0
Reduction in Requirement based on Revised Legislation	0	0	(21,482)
Qualifying Disbursements	<u>(67,228)</u>	<u>0</u>	<u>0</u>
Totals	<u>(\$15,075)</u>	<u>(\$340,924)</u>	<u>\$0</u>
Set-aside Balance Carried Forward to			
Future Fiscal Years	<u>(\$15,075)</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. The School District had offsets during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance set-aside, which may not be carried forward to future years.

Shadyside Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 20 – CONTINGENCIES/SUBSEQUENT EVENTS

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The Shadyside Local School District has been awarded a judgment in a criminal case in the United States District Court, Northern District of Ohio. The case is United States of America V. Kenneth J. Schulte. The judgment award was for three offenses: 1) wire fraud, aiding and abetting, 2) frauds and swindles, aiding and abetting, and 3) manipulative and deceptive devices. The Shadyside Local School District's portion of the award is in the amount of \$140,000, with a total judgment award to all parties of \$7,241,759.30. The restitution to the parties is to be equal, not less than, ten percent of defendant's gross monthly income while under supervision. During fiscal year 2004 the School District received \$10 toward the total judgment.

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

NOTE 21 – 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 decision 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 on its financial operations.

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$	\$8,379	\$	\$8,379
School Breakfast Program	046003-05PU-03/04	10.553	6,361		6,361	
National School Lunch Program	046003-LLP4-03/04	10.555	<u>47,376</u>		<u>47,376</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>53,737</u>	<u>8,379</u>	<u>53,737</u>	<u>8,379</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Grants to Local Educational Agencies	046003-C1S1-03/04	84.010	146,600		145,303	
Special Education Grants to States	046003-6BSF-02/04	84.027	125,035		133,890	
Safe and Drug-Free Schools and Communities, State Grants	046003-DRS1-04	84.186	5,228		5,228	
Innovative Education Program Strategies	046003-C2S1-03/04	84.298	9,554		10,111	
Education Technology, State Grants	046003-TJS1-03/04	84.318	3,546		3,301	
Federal Emergency Repair Grant	046003-C3-S3	84.352	171,779		221,516	
Improving Teacher Quality, State Grants	046003-TRS1-03/04	84.367	<u>49,947</u>		<u>46,294</u>	
Total U.S. Department of Education			<u>511,689</u>		<u>565,643</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation & Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	<u>17,345</u>		<u>17,345</u>	
Total U.S. Department of Health and Human Services			<u>17,345</u>		<u>17,345</u>	
Total Federal Awards Receipts and Expenditures			<u>\$582,771</u>	<u>\$8,379</u>	<u>\$636,725</u>	<u>\$8,379</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Shadyside Local School District
Belmont County
3890 Lincoln Avenue
Shadyside, Ohio 43947

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shadyside Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 18, 2005, wherein we noted the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated March 18, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004-001. In a separate letter to the School District's management dated March 18, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Shadyside Local School District
Belmont County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 18, 2005



Auditor of State Betty Montgomery

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

Shadyside Local School District
Belmont County
3890 Lincoln Avenue
Shadyside, Ohio 43947

To the Board of Education:

Compliance

We have audited the compliance of the Shadyside Local School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control over Compliance

The management of the 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 the 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.

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Shadyside Local School District
Belmont County
Independent Accountants' Report on Compliance with Requirements Applicable
to the Major Federal Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk 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.

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



Betty Montgomery
Auditor of State

March 18, 2005

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	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 § .510?	No
(d)(1)(vii)	Major Programs (list):	Federal Emergency Repair Grant C.F.D.A. #84.352
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

At June 30, 2004, the following funds reflected expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
General Fund – Regular Instruction	\$3,157,566	\$3,170,641	(\$13,075)
General Fund – Special Instruction	\$428,660	\$481,586	(\$52,926)
General Fund – Support Services - Pupils	\$273,566	\$292,520	(\$18,954)
General Fund – Support Services – Operation and Maintenance of Plant	\$542,876	\$554,526	(\$11,650)
General Fund – Support Services - Pupil Transportation	\$263,141	\$267,498	(\$4,357)
General Fund – Extracurricular Activities	\$83,390	\$118,410	(\$35,020)
Food Service Fund	\$138,262	\$149,888	(\$11,626)
Miscellaneous Local Fund	\$123,719	\$134,519	(\$10,800)
Self Insurance Fund	\$ 864,333	\$ 976,237	(\$111,904)

We recommend the School District Treasurer periodically compare expenditures to appropriations. The School District Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The School District Treasurer may request the Board to formally approve increased expenditure levels by increasing appropriations and estimated resources, if necessary. Any amended appropriations must be documented in the minutes.

3. FINDINGS FOR FEDERAL AWARDS

None.

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION .315(b)
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> : <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.10 states money paid into one fund may only be used for the purposes for which such fund was established.	No	Partially Corrected; the noncompliance citation is reissued within the management letter.
2003-002	Ohio Rev. Code Section 5705.41B requires no subdivision or taxing unit to expend money unless it has been appropriated.	No	Repeated as Finding Number 2004-001.

**SHADYSIDE LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 SECTION .315 (c)
JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	The Treasurer will monitor expenditures in order to ensure they do not exceed appropriated amounts.	June 30, 2005	Melissa Visnic, Treasurer



**Auditor of State
Betty Montgomery**

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SHADYSIDE LOCAL SCHOOL DISTRICT

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**