



**Mary Taylor, CPA**  
Auditor of State



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Shelby City School District  
Richland County  
25 High School Avenue  
PO Box 31  
Shelby, Ohio 44875

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which land and other capital assets, net of depreciation are recorded in the governmental activities, business-type activities, and Food Service Fund in the accompanying statements of net assets at June 30, 2007 (stated at \$4,445,496 for the governmental activities and \$58,808 for the business-type activities and the Food Service Fund), and the amount of depreciation expense recorded in the governmental activities and business-type activities for the year then ended (stated at \$580,510 for the governmental activities, and \$9,608 for the business-type activities and the Food Service Fund). Due to our inability to obtain assurance on the amounts recorded in capital assets, we are also unable to obtain assurance as to the amounts recorded as invested in capital assets, net of related debt for the governmental activities and business-type activities (stated at \$3,815,496 and \$58,808, respectively).

The Auditor of State served during the year ended June 30, 2007 as the District's financial supervisor under Ohio Rev. Code Section 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code Section 118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Rev. Code Section 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Rev. Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets net of depreciation, depreciation expense, and invested in capital assets net of related debt, for the governmental activities, business-type activities and the Food Service Fund, as described in paragraph three, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the Food Service Fund for the District, as of June 30, 2007, and the changes in financial position, and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than food service and the aggregate remaining fund information for the District, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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.

As further described in Note 23 we noted the District is experiencing certain financial difficulties. This note also discusses management's plans to address these conditions.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule provides additional information and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule 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 a whole.



**Mary Taylor, CPA**  
Auditor of State

January 4, 2008

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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The discussion and analysis of Shelby City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- ❑ Net assets increased \$2,329,995. Net assets of governmental activities increased \$2,335,295 and net assets of business-type activities decreased \$5,300 from fiscal year 2006.
- ❑ For governmental activities general revenues accounted for \$18,363,348 in revenue or 90.74 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$1,873,651, or 9.26 percent of total revenues of \$20,236,999.
- ❑ The School District had \$17,901,704 in expenses related to governmental activities; only \$1,873,651 of these expenses were offset by program specific charges for services and sales, grants or contributions.
- ❑ Business-type activities had charges for services of \$636,688, grants of \$379,987 and interest of \$1,579 which did not exceed expenses of \$1,023,554.

**Using this Annual Financial Report**

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

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

**Shelby City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

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***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all non-fiduciary 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 net 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. Changes to our net assets are a direct result of property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, State funding, student enrollment, and general inflation.

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

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

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major funds are the general fund and the food service enterprise fund.

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

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



**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
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**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**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 2007 compared to 2006:

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and Other Assets	\$9,717,453	\$8,772,102	\$76,946	\$68,496	\$9,794,399	\$8,840,598
Capital Assets	4,445,496	4,802,695	58,808	68,416	4,504,304	4,871,111
Total Assets	<u>14,162,949</u>	<u>13,574,797</u>	<u>135,754</u>	<u>136,912</u>	<u>14,298,703</u>	<u>13,711,709</u>
<b>Liabilities</b>						
Long-Term Liabilities	3,054,033	3,190,673	46,897	51,295	3,100,930	3,241,968
Other Liabilities	8,785,940	10,396,443	75,544	67,004	8,861,484	10,463,447
Total Liabilities	<u>11,839,973</u>	<u>13,587,116</u>	<u>122,441</u>	<u>118,299</u>	<u>11,962,414</u>	<u>13,705,415</u>
<b>Net Assets</b>						
Invested in Capital						
Assets, Net of Debt	3,815,496	4,067,695	58,808	68,416	3,874,304	4,136,111
Restricted	395,476	541,795	0	0	395,476	541,795
Unrestricted (Deficit)	<u>(1,887,996)</u>	<u>(4,621,809)</u>	<u>(45,495)</u>	<u>(49,803)</u>	<u>(1,933,491)</u>	<u>(4,671,612)</u>
Total Net Assets (Deficit)	<u>\$2,322,976</u>	<u>(\$12,319)</u>	<u>\$13,313</u>	<u>\$18,613</u>	<u>\$2,336,289</u>	<u>\$6,294</u>

Net assets of the School District's governmental activities increased \$2,335,295 from the prior fiscal year. The majority of this change is the result of a reduction in liabilities due to the repayment of the State Solvency Loan.

The net assets of the School District business-type activities decreased \$5,300 from the prior fiscal year. The majority of this change is the result of decreases in cash and a decrease in capital assets, due to annual depreciation.

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2007.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$631,536	\$625,249	\$636,688	\$638,561	\$1,268,224	\$1,263,810
Operating Grants and Contributions	1,228,309	1,066,550	379,987	334,915	1,608,296	1,401,465
Capital Grants and Contributions	13,806	9,105	0	0	13,806	9,105
<b>Total Program Revenues</b>	<b>1,873,651</b>	<b>1,700,904</b>	<b>1,016,675</b>	<b>973,476</b>	<b>2,890,326</b>	<b>2,674,380</b>
General Revenues:						
Property Taxes	6,598,358	7,228,986	0	0	6,598,358	7,228,986
Income Taxes	2,159,818	534,888	0	0	2,159,818	534,888
Grants and Entitlements, Not Restricted	9,160,415	7,903,041	0	0	9,160,415	7,903,041
Investment Earnings	130,835	72,762	1,579	70	132,414	72,832
Miscellaneous	313,922	256,042	0	0	313,922	256,042
<b>Total General Revenues</b>	<b>18,363,348</b>	<b>15,995,719</b>	<b>1,579</b>	<b>70</b>	<b>18,364,927</b>	<b>15,995,789</b>
<b>Total Revenues</b>	<b>20,236,999</b>	<b>17,696,623</b>	<b>1,018,254</b>	<b>973,546</b>	<b>21,255,253</b>	<b>18,670,169</b>
<b>Expenses</b>						
Instruction	10,347,815	9,775,376	0	0	10,347,815	9,775,376
Support Services:						
Pupil and Instructional Staff	2,282,223	2,225,461	0	0	2,282,223	2,225,461
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central Operation and Maintenance of Plant	2,257,067	1,984,466	0	0	2,257,067	1,984,466
Pupil Transportation	1,627,109	1,848,688	0	0	1,627,109	1,848,688
Extracurricular Activities	761,446	855,622	0	0	761,446	855,622
Interest and Fiscal Charges	553,339	526,805	0	0	553,339	526,805
Enterprise Operations	72,705	86,202	0	0	72,705	86,202
	0	0	1,023,554	934,252	1,023,554	934,252
<b>Total Expenses</b>	<b>17,901,704</b>	<b>17,302,620</b>	<b>1,023,554</b>	<b>934,252</b>	<b>18,925,258</b>	<b>18,236,872</b>
Increase (Decrease) in Net Assets	2,335,295	394,003	(5,300)	39,294	2,329,995	433,297
Net Assets (Deficit) Beginning of Year	(12,319)	(406,322)	18,613	(20,681)	6,294	(427,003)
Net Assets (Deficit) End of Year	\$2,322,976	(\$12,319)	\$13,313	\$18,613	\$2,336,289	\$6,294

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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Total revenues of governmental activities increased by 14.36 percent. This increase was due to:

- During fiscal year 2007 income tax revenues increased by \$1,624,930 due to the School District collecting a full year of income taxes.

Total expenses of governmental activities increased by 3.46 percent. This increase was due to:

- Instructional costs increased by \$572,439 as a result of an increase in salaries due to contractual step increases in salary for certified and classified employees.

***Governmental Activities***

The unique nature of real property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the homes were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00 and the School District would collect the same dollar value the levy generated in the years past. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Several revenue sources fund our governmental activities with property taxes and State foundation being the largest contributors. Property tax levies generated \$6,598,358 in 2007. General revenues from grants and entitlements, such as the school foundation program, generated \$9,160,415. With the combination of property taxes and intergovernmental funding covering over 88 percent of all expenses the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 57.8 percent of governmental activities program expenses. Interest expense was less than one percent. Interest expense was attributable to the outstanding energy conservation bonds and tax anticipation notes.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue, unrestricted State entitlements and other general revenues.

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Table 3  
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction	\$10,347,815	\$9,775,376	(\$9,686,501)	(\$9,137,443)
Support Services:				
Pupil and Instructional Staff	2,282,223	2,225,461	(1,553,860)	(1,573,195)
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central	2,257,067	1,984,466	(2,002,579)	(1,794,137)
Operation and Maintenance of Plant	1,627,109	1,848,688	(1,602,609)	(1,806,404)
Pupil Transportation	761,446	855,622	(719,748)	(823,751)
Extracurricular Activities	553,339	526,805	(390,051)	(380,584)
Interest and Fiscal Charges	72,705	86,202	(72,705)	(86,202)
Total Expenses	<u>\$17,901,704</u>	<u>\$17,302,620</u>	<u>(\$16,028,053)</u>	<u>(\$15,601,716)</u>

***Business-Type Activities***

Business-type activities include the food service operation and uniform school supplies. These programs had revenues of \$1,018,254 and expenses of \$1,023,554 for fiscal year 2007. To ensure that the net assets are not reduced further in fiscal year 2008, the School District is considering ways to reduce expenses in the enterprise funds.

***The School District's Funds***

Information about the School District's governmental funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,274,455 and expenditures of \$17,573,636. The net change in fund balance for the year was an increase of \$2,700,819. The general fund had revenues that exceeded expenditures by \$2,574,068 due to an increase in overall revenues.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2007, the School District amended its general fund budget numerous times to account for fluctuations.

For the general fund, the original budget basis revenue was \$15,147,841, below final budget estimates of \$15,735,469. Of this \$587,628 difference, most was due to changes in estimated property taxes. Actual revenues were \$15,691,093, slightly less than the final budget. The original appropriations of \$15,950,722 stayed fairly constant. Final appropriations were \$15,978,300. Actual expenditures were \$15,977,154, only \$1,146 less than anticipated.

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the School District had \$4,504,304 invested in capital assets, net of depreciation, with \$4,445,496 used for governmental activities. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$348,364	\$348,364	\$0	\$0	\$348,364	\$348,364
Land Improvements	97,823	68,943	0	0	97,823	68,943
Buildings and Improvements	1,483,879	1,485,997	0	0	1,483,879	1,485,997
Furniture and Equipment	2,197,414	2,589,531	58,808	68,416	2,256,222	2,657,947
Vehicles	318,016	309,860	0	0	318,016	309,860
Totals	<u>\$4,445,496</u>	<u>\$4,802,695</u>	<u>\$58,808</u>	<u>\$68,416</u>	<u>\$4,504,304</u>	<u>\$4,871,111</u>

The decrease in capital assets is due to annual depreciation of assets. For more information on capital assets refer to Note 9 to the Basic Financial Statements.

**Debt Administration**

At June 30, 2007 the School District had \$1,617,187 in debt outstanding with \$378,594 due within one year.

Table 5 summarizes the debt outstanding:

Table 5  
 Outstanding Debt at June 30

	Governmental Activities 2007	Governmental Activities 2006
State Solvency Loan	\$0	\$1,626,500
State of Ohio Bankruptcy Loan	157,187	235,781
Energy Conservation Bonds	630,000	735,000
Tax Anticipation Notes	830,000	1,000,000
Total	<u>\$1,617,187</u>	<u>\$3,597,281</u>

The energy conservation bonds were issued to replace heating systems and lighting systems at the high school. It is to be repaid in annual installments through June 2013, from the General Fund.

**Shelby City School District**  
*Management's Discussion and Analysis*  
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The State of Ohio Bankruptcy loan is to cover the loss of property taxes due to the LTV-Copperweld bankruptcy and will be repaid with tax revenues that were received as a result of the bankruptcy settlement. The State Solvency Loan was a result of the School District's fiscal emergency status and was repaid over the past two years, with the repayment amount being deducted from the State foundation revenue.

At June 30, 2007, the School District's overall legal debt margin was \$18,087,124 with an unvoted debt margin of \$207,968. For more information, refer to Note 11 to the Basic Financial Statements.

**Current Issues Affecting Financial Condition**

On April 7, 2005, an operating deficit was certified by the Auditor of State placing the School District in fiscal emergency. In response to this crisis the School District has reduced teaching and support staff, and curtailed spending in every area. In May of 2005 the residents of the School District passed a 1 percent income tax to further support the School District's efforts to resolve the situation. While still under the supervision of the fiscal emergency committee, the School District ended fiscal year 2007 with a general fund unreserved cash fund balance of \$773,282. The State advance related to the fiscal emergency was fully repaid in June 2007. The current forecast anticipates an ending general fund unreserved cash fund balance of \$1,835,499 for fiscal year 2008.

During the past year both certified and classified staff approved new three year contracts with base salary increases set at 0, 1.95 and 2 percent for years 2007, 2008 and 2009 respectively. An emergency levy generating \$950,000 was renewed in May of 2007. The School District looks forward to leaving fiscal emergency status behind in the near future.

In conclusion, the Shelby City School District has faced serious financial challenges over the past several years. Conditions are improving, and the board and staff are optimistic about the School District's ability to overcome those challenges while continuing to provide an education of which the community, students and staff can be proud.

**Contacting the School District's Financial Management**

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Elizabeth Anatra, Treasurer at Shelby City School District, 25 High School Avenue, Shelby, Ohio 44875 or e-mail at [anatra.elizabeth@shelbyk12.org](mailto:anatra.elizabeth@shelbyk12.org).

**Shelby City School District***Statement of Net Assets**June 30, 2007*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,461,502	\$52,701	\$1,514,203
Cash and Cash Equivalents			
With Fiscal Agent	4,280	0	4,280
Accrued Interest Receivable	4,149	0	4,149
Accounts Receivable	10,765	216	10,981
Intergovernmental Receivable	19,354	42,729	62,083
Prepaid Items	15,597	0	15,597
Taxes Receivable	8,120,257	0	8,120,257
Internal Balances	23,406	(23,406)	0
Inventory Held for Resale	0	3,644	3,644
Materials and Supplies Inventory	58,143	1,062	59,205
Nondepreciable Capital Assets	348,364	0	348,364
Depreciable Capital Assets, Net	4,097,132	58,808	4,155,940
<i>Total Assets</i>	<u>14,162,949</u>	<u>135,754</u>	<u>14,298,703</u>
<b>Liabilities</b>			
Accounts Payable	229,581	6,083	235,664
Accrued Wages Payable	1,280,268	32,363	1,312,631
Intergovernmental Payable	447,202	34,452	481,654
Matured Compensated Absences Payable	20,352	2,646	22,998
Deferred Revenue	6,253,593	0	6,253,593
Accrued Interest Payable	5,687	0	5,687
Claims Payable	549,257	0	549,257
Long-Term Liabilities:			
Due Within One Year	514,133	0	514,133
Due In More Than One Year	2,539,900	46,897	2,586,797
<i>Total Liabilities</i>	<u>11,839,973</u>	<u>122,441</u>	<u>11,962,414</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,815,496	58,808	3,874,304
Restricted for:			
Capital Outlay	141,040	0	141,040
Other Purposes	254,436	0	254,436
Unrestricted (Deficit)	(1,887,996)	(45,495)	(1,933,491)
<i>Total Net Assets</i>	<u>\$2,322,976</u>	<u>\$13,313</u>	<u>\$2,336,289</u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2007

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental Activities</b>				
Instruction:				
Regular	\$8,171,563	\$232,840	\$108,820	\$0
Special	1,981,993	38,597	275,845	0
Vocational	194,259	5,212	0	0
Support Services:				
Pupil	786,816	75,792	29,322	0
Instructional Staff	1,495,407	22,850	600,399	0
Board of Education	91,278	1,358	0	0
Administration	1,228,593	36,956	42,452	0
Fiscal	705,640	14,189	0	0
Operation and Maintenance of Plant	1,627,109	24,500	0	0
Pupil Transportation	761,446	27,534	358	13,806
Central	65,004	1,237	7,120	0
Operation of Non-Instructional Services	166,552	2,887	148,289	0
Extracurricular Activities	553,339	147,584	15,704	0
Interest and Fiscal Charges	72,705	0	0	0
<i>Total Governmental Activities</i>	<u>17,901,704</u>	<u>631,536</u>	<u>1,228,309</u>	<u>13,806</u>
<b>Business-Type Activities</b>				
Food Service	967,444	578,277	379,987	0
Uniform School Supplies	56,110	58,411	0	0
<i>Total Business-Type Activities</i>	<u>1,023,554</u>	<u>636,688</u>	<u>379,987</u>	<u>0</u>
<b>Totals</b>	<u><u>\$18,925,258</u></u>	<u><u>\$1,268,224</u></u>	<u><u>\$1,608,296</u></u>	<u><u>\$13,806</u></u>

**General Revenues**

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Income Taxes Levied for General Purposes

Grants and Entitlements not Restricted

to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

Change in Net Assets

*Net Assets (Deficit) Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the basic financial statements



Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$7,829,903)	\$0	(\$7,829,903)
(1,667,551)	0	(1,667,551)
(189,047)	0	(189,047)
(681,702)	0	(681,702)
(872,158)	0	(872,158)
(89,920)	0	(89,920)
(1,149,185)	0	(1,149,185)
(691,451)	0	(691,451)
(1,602,609)	0	(1,602,609)
(719,748)	0	(719,748)
(56,647)	0	(56,647)
(15,376)	0	(15,376)
(390,051)	0	(390,051)
(72,705)	0	(72,705)
<u>(16,028,053)</u>	<u>0</u>	<u>(16,028,053)</u>
0	(9,180)	(9,180)
<u>0</u>	<u>2,301</u>	<u>2,301</u>
0	(6,879)	(6,879)
<u>(16,028,053)</u>	<u>(6,879)</u>	<u>(16,034,932)</u>
6,181,916	0	6,181,916
142,485	0	142,485
273,957	0	273,957
2,159,818	0	2,159,818
9,160,415	0	9,160,415
130,835	1,579	132,414
313,922	0	313,922
<u>18,363,348</u>	<u>1,579</u>	<u>18,364,927</u>
2,335,295	(5,300)	2,329,995
<u>(12,319)</u>	<u>18,613</u>	<u>6,294</u>
<u>\$2,322,976</u>	<u>\$13,313</u>	<u>\$2,336,289</u>

**Shelby City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and			
Cash Equivalents	\$904,239	\$491,072	\$1,395,311
Accrued Interest Receivable	4,149	0	4,149
Accounts Receivable	10,765	0	10,765
Interfund Receivable	52,366	0	52,366
Intergovernmental Receivable	0	19,354	19,354
Prepaid Items	15,597	0	15,597
Materials and Supplies Inventory	58,143	0	58,143
Income Taxes Receivable	937,087	0	937,087
Property Taxes Receivable	6,876,788	306,382	7,183,170
<i>Total Assets</i>	<u>\$8,859,134</u>	<u>\$816,808</u>	<u>\$9,675,942</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$138,079	\$91,502	\$229,581
Accrued Wages Payable	1,190,624	89,644	1,280,268
Interfund Payable	0	42,366	42,366
Intergovernmental Payable	426,485	20,717	447,202
Matured Compensated Absences Payable	20,352	0	20,352
Deferred Revenue	6,461,255	307,223	6,768,478
Accrued Interest Payable	3,009	0	3,009
Notes Payable	830,000	0	830,000
<i>Total Liabilities</i>	<u>9,069,804</u>	<u>551,452</u>	<u>9,621,256</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	21,199	150,566	171,765
Reserved for Property Taxes	415,533	18,513	434,046
Unreserved, Undesignated Reported In:			
General Fund (Deficit)	(647,402)	0	(647,402)
Special Revenue Funds	0	75,256	75,256
Capital Projects Funds	0	21,021	21,021
<i>Total Fund Balances (Deficit)</i>	<u>(210,670)</u>	<u>265,356</u>	<u>54,686</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,859,134</u>	<u>\$816,808</u>	<u>\$9,675,942</u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007*

<b>Total Governmental Funds Balances</b>		<b>\$54,686</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,445,496
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	495,531	
Intergovernmental	19,354	
Total		514,885
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.		
Net Assets	(478,786)	
Internal Balances	13,406	
Total		(465,380)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(2,678)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Energy Conservation Bonds	(630,000)	
State of Ohio Bankruptcy Loan	(157,187)	
Compensated Absences	(1,436,846)	
Total		(2,224,033)
<i>Net Assets of Governmental Activities</i>		<b>\$2,322,976</b>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$6,169,311	\$416,936	\$6,586,247
Income Taxes	2,159,818	0	2,159,818
Intergovernmental	8,878,008	1,297,498	10,175,506
Interest	121,681	1,384	123,065
Tuition and Fees	395,272	0	395,272
Extracurricular Activities	0	211,764	211,764
Rentals	24,500	0	24,500
Contributions and Donations	207,722	76,639	284,361
Miscellaneous	278,558	35,364	313,922
<i>Total Revenues</i>	<u>18,234,870</u>	<u>2,039,585</u>	<u>20,274,455</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,666,875	152,423	7,819,298
Special	1,687,571	277,840	1,965,411
Vocational	203,614	0	203,614
Support Services:			
Pupil	691,357	92,270	783,627
Instructional Staff	693,599	600,714	1,294,313
Board of Education	91,167	0	91,167
Administration	1,098,273	46,007	1,144,280
Fiscal	704,109	0	704,109
Operation and Maintenance of Plant	1,538,671	0	1,538,671
Pupil Transportation	779,750	1,131	780,881
Central	57,211	7,793	65,004
Operation of Non-Instructional Services	0	166,659	166,659
Extracurricular Activities	409,418	136,549	545,967
Capital Outlay	0	210,369	210,369
Debt Service:			
Principal Retirement	0	183,594	183,594
Interest and Fiscal Charges	39,187	37,485	76,672
<i>Total Expenditures</i>	<u>15,660,802</u>	<u>1,912,834</u>	<u>17,573,636</u>
<i>Net Change in Fund Balances</i>	2,574,068	126,751	2,700,819
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(2,784,738)</u>	<u>138,605</u>	<u>(2,646,133)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$210,670)</u>	<u>\$265,356</u>	<u>\$54,686</u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2007*

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**Net Change in Fund Balances - Total Governmental Funds** \$2,700,819

*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 depreciation exceeds capital outlay in the current period.

Capital Assets Additions	223,311	
Current Year Depreciation	(580,510)	
Total		(357,199)

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

Delinquent Property Taxes	12,111	
Intergovernmental	(57,337)	
Total		(45,226)

Repayment of the State of Ohio bankruptcy loan and energy conservation bonds are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Energy Conservation Bonds	105,000	
State of Ohio Bankruptcy Loan	78,594	
Total		183,594

Some expenses reported in the statement of activities, such as compensated absences are not expenditures of current financial resources and therefore are not reported as expenditures in governmental funds.

(216,954)

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

3,967

The internal service fund used by management to charge the cost of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for the governmental funds is reported for the year.

Change in Net Assets	68,204	
Internal Balances	(1,910)	
Total		66,294

*Change in Net Assets of Governmental Activities* \$2,335,295

See accompanying notes to the basic financial statements

**Shelby City 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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$5,108,635	\$6,009,205	\$6,033,963	\$24,758
Income Taxes	1,330,398	1,302,508	1,390,134	87,626
Intergovernmental	8,022,470	7,622,356	7,461,299	(161,057)
Interest	70,000	70,000	117,532	47,532
Tuition and Fees	365,000	365,000	395,272	30,272
Rentals	0	0	24,500	24,500
Contributions and Donations	210,000	324,632	207,722	(116,910)
Miscellaneous	41,368	41,768	60,671	18,903
<i>Total Revenues</i>	15,147,871	15,735,469	15,691,093	(44,376)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,572,485	7,429,350	7,830,574	(401,224)
Special	1,615,089	1,825,964	1,708,441	117,523
Vocational	220,828	245,828	215,005	30,823
Support Services:				
Pupil	708,845	711,495	697,404	14,091
Instructional Staff	874,040	832,076	672,890	159,186
Board of Education	83,080	83,080	96,836	(13,756)
Administration	1,295,813	1,217,129	1,147,960	69,169
Fiscal	517,533	666,954	723,217	(56,263)
Operation and Maintenance of Plant	1,710,923	1,706,368	1,609,330	97,038
Pupil Transportation	852,611	789,962	810,347	(20,385)
Central	45,120	45,120	57,211	(12,091)
Extracurricular Activities	454,355	424,974	407,939	17,035
<i>Total Expenditures</i>	15,950,722	15,978,300	15,977,154	1,146
<i>Excess of Revenues Under Expenditures</i>	(802,851)	(242,831)	(286,061)	(43,230)
<b>Other Financing Sources (Uses)</b>				
Advances In	274,560	274,600	274,550	(50)
Advances Out	0	(10,000)	(10,000)	0
<i>Total Other Financing Sources (Uses)</i>	274,560	264,600	264,550	(50)
<i>Net Change in Fund Balance</i>	(528,291)	21,769	(21,511)	(43,280)
<i>Fund Balance Beginning of Year</i>	528,288	528,288	528,288	0
Prior Year Encumbrances Appropriated	266,505	266,505	266,505	0
<i>Fund Balance End of Year</i>	\$266,502	\$816,562	\$773,282	(\$43,280)

See accompanying notes to the basic financial statements

**Shelby City School District**

*Statement of Fund Net Assets*

*Proprietary Funds*

*June 30, 2007*

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>Nonmajor Enterprise Fund</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$9,984	\$42,717	\$52,701	\$66,191
Cash and Cash Equivalents				
With Fiscal Agent	0	0	0	4,280
Accounts Receivable	216	0	216	0
Intergovernmental Receivable	42,729	0	42,729	0
Inventory Held for Resale	3,644	0	3,644	0
Materials and Supplies Inventory	1,062	0	1,062	0
<i>Total Current Assets</i>	<u>57,635</u>	<u>42,717</u>	<u>100,352</u>	<u>70,471</u>
<i>Noncurrent Assets</i>				
Depreciable Capital Assets, Net	58,808	0	58,808	0
<i>Total Assets</i>	<u>116,443</u>	<u>42,717</u>	<u>159,160</u>	<u>70,471</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	2,368	3,715	6,083	0
Accrued Wages Payable	32,363	0	32,363	0
Interfund Payable	10,000	0	10,000	0
Intergovernmental Payable	34,452	0	34,452	0
Matured Compensated Absences Payable	2,646	0	2,646	0
Claims Payable	0	0	0	549,257
<i>Total Current Liabilities</i>	<u>81,829</u>	<u>3,715</u>	<u>85,544</u>	<u>549,257</u>
<i>Long-Term Liabilities (net of current portion)</i>				
Compensated Absences Payable	46,897	0	46,897	0
<i>Total Liabilities</i>	<u>128,726</u>	<u>3,715</u>	<u>132,441</u>	<u>549,257</u>
<b>Net Assets</b>				
Invested in Capital Assets	58,808	0	58,808	0
Unrestricted (Deficit)	(71,091)	39,002	(32,089)	(478,786)
<i>Total Net Assets (Deficit)</i>	<u>(\$12,283)</u>	<u>\$39,002</u>	<u>26,719</u>	<u>(\$478,786)</u>

Some amounts reported for business-type activities in the statement of net assets are different because their share of internal service fund net assets are included.

	<u>(13,406)</u>
<i>Net Assets of Business-Type Activities</i>	<u><u>\$13,313</u></u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007*

	Business-Type Activities - Enterprise Funds			
	Food Service	Nonmajor Enterprise Fund	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
<b>Operating Revenues</b>				
Sales	\$578,277	\$58,411	\$636,688	\$0
Charges for Services	0	0	0	2,868,486
<i>Total Operating Revenues</i>	<u>578,277</u>	<u>58,411</u>	<u>636,688</u>	<u>2,868,486</u>
<b>Operating Expenses</b>				
Salaries	310,983	0	310,983	0
Fringe Benefits	234,854	0	234,854	0
Purchased Services	22,797	0	22,797	0
Cost of Sales	390,884	56,110	446,994	0
Depreciation	9,608	0	9,608	0
Claims	228	0	228	2,808,052
<i>Total Operating Expenses</i>	<u>969,354</u>	<u>56,110</u>	<u>1,025,464</u>	<u>2,808,052</u>
<i>Operating Income (Loss)</i>	<u>(391,077)</u>	<u>2,301</u>	<u>(388,776)</u>	<u>60,434</u>
<b>Non-Operating Revenues</b>				
Operating Grants	379,987	0	379,987	0
Investment Earnings	1,579	0	1,579	7,770
<i>Total Non-Operating Revenues</i>	<u>381,566</u>	<u>0</u>	<u>381,566</u>	<u>7,770</u>
<i>Change in Net Assets</i>	(9,511)	2,301	(7,210)	68,204
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(2,772)</u>	<u>36,701</u>		<u>(546,990)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$12,283)</u></u>	<u><u>\$39,002</u></u>		<u><u>(\$478,786)</u></u>

Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal service fund is reported with business-type activities.

	1,910
<i>Change in Net Assets of Business-Type Activities</i>	<u><u>(\$5,300)</u></u>

See accompanying notes to the basic financial statements



**Shelby City School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2007

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>Nonmajor Enterprise Fund</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$578,061	\$58,411	\$636,472	\$0
Cash Received from Interfund Services Provided	0	0	0	2,868,486
Cash Payments to Employees for Services	(304,867)	0	(304,867)	0
Cash Payments for Employee Benefits	(240,779)	0	(240,779)	0
Cash Payments for Goods and Services	(361,961)	(52,395)	(414,356)	0
Cash Payments for Claims	0	0	0	(2,772,174)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(329,546)</u>	<u>6,016</u>	<u>(323,530)</u>	<u>96,312</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	331,408	0	331,408	0
Advances In	10,000	0	10,000	0
Advances Out	(84,368)	0	(84,368)	(165,094)
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>257,040</u>	<u>0</u>	<u>257,040</u>	<u>(165,094)</u>
<b>Cash Flows from Investing Activities</b>				
Interest on Investments	1,579	0	1,579	7,770
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(70,927)	6,016	(64,911)	(61,012)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>80,911</u>	<u>36,701</u>	<u>117,612</u>	<u>131,483</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$9,984</u></u>	<u><u>\$42,717</u></u>	<u><u>\$52,701</u></u>	<u><u>\$70,471</u></u>

(continued)

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Fiscal Year Ended June 30, 2007

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>Nonmajor Enterprise Fund</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating Income (Loss)	(\$391,077)	\$2,301	(\$388,776)	\$60,434
Adjustments:				
Depreciation	9,608	0	9,608	0
Donated Commodities Received During the Year	47,901	0	47,901	0
Decrease in Assets:				
Accounts Receivable	1,923	0	1,923	0
Inventory Held for Resale	1,595	0	1,595	0
Materials and Supplies Inventory	77	0	77	0
Increase (Decrease) in Liabilities:				
Accounts Payable	236	3,715	3,951	0
Accrued Wages	7,368	0	7,368	0
Compensated Absences Payable	(5,925)	0	(5,925)	0
Intergovernmental Payable	(1,252)	0	(1,252)	0
Claims Payable	0	0	0	35,878
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(\$329,546)</u>	<u>\$6,016</u>	<u>(\$323,530)</u>	<u>\$96,312</u>

**Non-Cash Noncapital Activities**

Federal donated commodities in the amount of \$47,901 were recorded as revenue when received in the food service enterprise fund.

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2007*

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$592,181	\$78,381
Investments in Common Stock	41,392	0
Investments in Segregated Accounts	244,665	0
<i>Total Assets</i>	<u>878,238</u>	<u>\$78,381</u>
<b>Liabilities</b>		
Undistributed Monies	0	\$1,369
Due to Students	0	77,012
<i>Total Liabilities</i>	<u>0</u>	<u>\$78,381</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$878,238</u>	

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Scholarship
<b>Additions</b>	
Interest	\$58,509
Contributions and Donations	10
<i>Total Additions</i>	58,519
<b>Deductions</b>	
Scholarships Awarded	20,737
Administrative Fees	1,781
<i>Total Deductions</i>	22,518
<i>Change in Net Assets</i>	36,001
<i>Net Assets Beginning of Year</i>	842,237
<i>Net Assets End of Year</i>	\$878,238

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 1 - Description of the School District and Reporting Entity**

Shelby City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's four elementary schools, one middle school and one high school staffed by 66 classified employees and 144 certificated full-time teaching personnel who provide services to 2,245 students and other community members.

On April 7, 2005, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under section 3316.03B(5), Ohio Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of Shelby. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan. The recovery plan was adopted on August 23, 2005. State law requires that the plan be updated annually. The recovery plan includes staff reductions of three administrators, 50 classified and 32 certified positions and the closure of one elementary school building with an estimated savings of \$3,200,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal year 2008 and beyond. See note 23 for more information on the School District's fiscal emergency status.

*Reporting Entity*

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

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

The School District is associated with four organizations, which are defined as a joint venture, two jointly governed organizations and an insurance purchasing pool. These organizations include the Heartland Council of Governments, the Pioneer Career and Technology Center, Metropolitan Educational Council, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 12, 13 and 14 to the basic financial statements.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local 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 governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds. 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. These statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal 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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the 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 and enterprise 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.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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

**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 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 funds reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

**Food Service Fund** This fund accounts for the financial transactions related to the food service operations of the School District.

**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 is a self insurance fund that accounts for medical/surgical, dental and life insurance benefits of School District employees.

**Fiduciary Fund Types** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program for students. 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.

### **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 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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

The private purpose trust fund is accounted for on a flow of economic resources measurement focus.

***D. Basis of Accounting***

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

***Revenues - Exchange and 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 sixty days of year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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, 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, 2007, but which were levied to finance fiscal year 2008 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.



**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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

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

***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds, other than a portion of the private purpose trust fund which is invested in common stock, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The School District has a bank account for self-insurance monies held separate from the School District's central bank account. This depository account is presented on the statements as "cash and cash equivalents with fiscal agent" since it is not required to be deposited into the School District treasury.

During fiscal year 2007, investments were limited to STAROhio and donated common stock. The common stock is reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$121,681, which includes \$35,869 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.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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.

***G. Inventory***

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

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives	Business - Type Activities Estimated Lives
Land Improvements	15 years	N/A
Buildings and Improvements	40 years	40 years
Furniture and Equipment	10 years	10 years
Vehicles	10 years	N/A

**I. Interfund Balances**

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

**J. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 11 years of current service with the School District.

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

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "matured compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***K. Accrued Liabilities and Long-term Obligations***

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

In general, 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 and compensated absences 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.

***L. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

***M. 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 enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$395,476 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for grants, special education and student activities.

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

***N. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for food service, sales of school supplies and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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***O. 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.

***P. 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.

***Q. 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 fund level. The treasurer has been given authority to allocate Board appropriations to the function and object levels within each fund.

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 and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues plus beginning unencumbered cash. 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.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 3 – Fund Deficits**

The following funds had deficit fund balances at June 30, 2007:

<u>Fund</u>	<u>Amount</u>
General	\$210,670
<i>Special Revenue Funds:</i>	
Poverty Based Assistance	4,219
IDEA Part B	57,337
Title I	14,670
Title V	7,846
Miscellaneous Federal Grant	30,772

The deficit fund balance in the general fund is due to the issuance of notes and adjustments for accrued liabilities. The School District is examining alternatives to eliminate the deficit. The special revenue fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

**Note 4 - 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 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 Balance - Budget (Non-GAAP Basis) and Actual presented for the 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:

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 basis) as opposed to balance sheet transactions (GAAP basis).

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

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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Net Change in Fund Balance

GAAP Basis	\$2,574,068
Net Adjustment for Revenue Accruals	(917,277)
Advances In	274,550
Revenue for Debt Repayment	(1,626,500)
Net Adjustment for Expenditure Accruals	(185,395)
Advances Out	(10,000)
Encumbrances	(130,957)
Budget Basis	<u><u>(\$21,511)</u></u>

**Note 5 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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 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.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$170,980 of the School District's bank balance of \$270,980 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments** As of June 30, 2007, the School District had the following investments:

	Fair Value	Average Maturity
STAROhio	\$2,035,162	38.56 Days
Common Stock	41,392	N/A
Total Portfolio	\$2,076,554	

**Interest Rate Risk** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The School District has over 98 percent of its investments with STAROhio

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 6 – 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 year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 year 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. 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 Richland 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, 2007, are available to finance fiscal year 2008 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, 2007 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, 2007 was \$415,533 in the general fund and \$18,513 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$280,185 in the general fund, and \$12,136 in the permanent improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.



**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$199,382,020	82.68%	\$202,696,890	83.05%
Public Utility Personal	7,502,810	3.12	7,442,580	3.05
General Business Personal	34,252,251	14.20	33,917,805	13.90
	\$241,137,081	100.00%	\$244,057,275	100.00%
Tax Rate per \$1,000 of assessed valuation		\$49.50		\$49.40

**Note 7 – Income Tax**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2006 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

**Note 8 - Receivables**

Receivables at June 30, 2007, consisted of taxes, intergovernmental and accounts. 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, except for delinquent property taxes, are expected to be collected within one year.

A summary of the principal items of intergovernmental receivable follows:

<b>Governmental Activities</b>	
Title V	\$4,376
Drug Free Grant	6,610
Improving Teacher Quality	7,610
Miscellaneous Federal Grants	758
Total Governmental Activities	\$19,354

At June 30, 2007 the School District also had an intergovernmental receivable of \$42,729 in the business-type activities and food service enterprise fund for the federal lunch program reimbursements.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/2006	Additions	Deductions	Balance 6/30/2007
<b>Governmental Activities</b>				
<i>Non-Depreciable Assets</i>				
Land	\$348,364	\$0	\$0	\$348,364
<i>Depreciable Assets</i>				
Land Improvements	523,163	36,165	0	559,328
Building and Improvements	7,021,677	41,745	0	7,063,422
Furniture and Equipment	6,035,364	85,326	0	6,120,690
Vehicles	1,411,658	60,075	0	1,471,733
<i>Total Depreciable Assets</i>	<u>14,991,862</u>	<u>223,311</u>	<u>0</u>	<u>15,215,173</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(454,220)	(7,285)	0	(461,505)
Building and Improvements	(5,535,680)	(43,863)	0	(5,579,543)
Furniture and Equipment	(3,445,833)	(477,443)	0	(3,923,276)
Vehicles	(1,101,798)	(51,919)	0	(1,153,717)
<i>Total Accumulated Depreciation</i>	<u>(10,537,531)</u>	<u>(580,510)*</u>	<u>0</u>	<u>(11,118,041)</u>
<i>Depreciable Capital Assets, Net</i>	<u>4,454,331</u>	<u>(357,199)</u>	<u>0</u>	<u>4,097,132</u>
Governmental Activities Capital Assets, Net	<u>\$4,802,695</u>	<u>(\$357,199)</u>	<u>\$0</u>	<u>\$4,445,496</u>
<b>Business-Type Activities</b>				
Furniture and Equipment	\$235,535	\$0	\$0	\$235,535
Less Accumulated Depreciation	(167,119)	(9,608)	0	(176,727)
Business-Type Activities Capital Assets, Net	<u>\$68,416</u>	<u>(\$9,608)</u>	<u>\$0</u>	<u>\$58,808</u>

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$135,718
Special	531
Vocational	1,819
Support Services:	
Pupil	613
Instructional Staff	206,481
Board of Education	111
Administration	9,819
Fiscal	4,818
Operation and Maintenance of Plant	150,848
Pupil Transportation	46,595
Operation of Non-Instructional Services	3,312
Extracurricular Activities	19,845
Total Depreciation Expense	\$580,510

Depreciation expense for business-type activities was charged to the food service fund.

**Note 10 – Short-Term Obligation**

A summary of the loan transactions for the fiscal year ended June 30, 2007, follows:

	Principal Outstanding 6/30/2006	Additions	Deductions	Principal Outstanding 6/30/2007
General Fund				
2005 0.00% State Solvency Loan	\$1,626,500	\$0	\$1,626,500	\$0

As a result of the School District being declared in fiscal emergency during fiscal year 2005, the School District received a no interest loan from the Ohio Department of Education in the amount of \$3,253,000, which represented the projected deficit for fiscal year 2005. The remaining portion of the loan was repaid through monthly deductions from the State foundation revenue.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 11 – Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/2006	Additions	Reductions	Principal Outstanding 6/30/2007	Amounts Due in One Year
<b>Governmental Activities</b>					
Energy Conservation Bonds	\$735,000	\$0	\$105,000	\$630,000	\$105,000
Tax Anticipation Notes	1,000,000	0	170,000	830,000	195,000
State of Ohio Bankruptcy Loan	235,781	0	78,594	157,187	78,594
Compensated Absences	1,219,892	345,831	128,877	1,436,846	135,539
Total Governmental Activities					
Long-Term Liabilities	<u>\$3,190,673</u>	<u>\$345,831</u>	<u>\$482,471</u>	<u>\$3,054,033</u>	<u>\$514,133</u>
<b>Business-Type Activities</b>					
Compensated Absences	<u>\$51,295</u>	<u>\$0</u>	<u>\$4,398</u>	<u>\$46,897</u>	<u>\$0</u>

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

*Tax Anticipation Notes* - The five year tax anticipation notes were issued July 28, 2005 and were used to pay operating expenditures of the School District until the tax levy collections began. The tax anticipation notes will be paid from the general fund and have an interest rate of 4.35 percent. The notes are being repaid with income tax revenue, and are therefore presented on the balance sheet.

*State of Ohio Bankruptcy Loan* – The State of Ohio Bankruptcy loan is due to a local business filing for Chapter Eleven receivership. The loan was received in fiscal year 2002. Payments for this loan began in fiscal year 2007. The loan is being repaid with property tax revenue.

Compensated absences will be paid from the fund from which the employees’ salaries are paid.

The overall debt margin of the School District as of June 30, 2007 was \$18,087,124 with an unvoted debt margin of \$207,968. Principal and interest requirements to retire long-term obligations outstanding at June 30, 2007 are as follows:

Fiscal Year Ending June 30	Energy Conservation		Bankruptcy Loan	Tax Anticipation Notes	
	Principal	Interest	Principal	Principal	Interest
2008	\$105,000	\$32,130	\$78,594	\$195,000	\$31,864
2009	105,000	26,775	78,593	205,000	23,164
2010	105,000	21,420	0	210,000	14,138
2011	105,000	16,065	0	220,000	4,785
2012	105,000	10,710	0	0	0
2013	105,000	5,355	0	0	0
Total	<u>\$630,000</u>	<u>\$112,455</u>	<u>\$157,187</u>	<u>\$830,000</u>	<u>\$73,951</u>

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 12 – Joint Venture**

***Heartland Council of Governments (COG)*** – is a governmental joint venture consisting of 16 local school districts, 1 educational service center, 1 career and technology center and a consortium of community schools. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member School Districts. Each member School District supports the COG based upon their per pupil charge dependent upon the software package utilized. In the event of dissolution of the COG, all current members will share in the net obligations or asset liquidation in a ratio proportionate to the last twelve months' financial contributions. The COG is governed by a Board of Directors, consisting of superintendents of the member districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The School District does not have an equity interest in the COG. In fiscal year 2007 payments to the COG of \$75,974 were made by the School District. Financial information can be obtained from the Treasurer at Pioneer Career and Technology Center, who serves as the fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875.

**Note 13 - Jointly Governed Organizations**

***A. Pioneer Career and Technology Center***

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

***B. Metropolitan Educational Council (MEC)***

The School District participates in the MEC purchasing pool, which allows the School District to purchase items at a discount. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases. The MEC is a distinct political subdivision of the State of Ohio operated under the direction of a 28 member Board consisting of one representative from each participating school district in Franklin County and one representative from each County outside of Franklin.

**Note 14 - Insurance Purchasing Pool**

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Post 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.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 15 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the School District's insurance coverage was as follows:

Type of Coverage	Deductible	Liability Limit
Building and Contents-replacement cost	\$2,500	\$47,334,309
Electronic Data Processing Equipment	1,000	2,768,456
Automobile Liability	250/500	1,000,000
Uninsured Motorist	250/500	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability		2,000,000
Employer's Liability		2,000,000

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

***B. Workers' Compensation***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. 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.

***C. Employee Insurance Benefits***

Medical/surgical, life and dental insurance are offered to employees through a self-insurance internal service fund. The School District's monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$75,000 per employee, per year. The claims liability of \$549,257 reported in the internal service fund at June 30, 2007 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 Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2006	\$478,580	\$2,652,435	\$2,617,636	\$513,379
2007	513,379	2,808,052	2,772,174	549,257

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 16 - Defined Benefits Pension Plans**

***A. School Employees 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 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, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

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 2007, 10.68 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, 2007, 2006 and 2005 were \$250,774, \$243,092 and \$439,409 respectively; 54.34 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

***B. State Teachers Retirement System of Ohio***

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 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, 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 STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$997,889, \$983,815, and \$1,657,518 respectively; 86.52 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$16,635 made by the School District and \$30,369 made by the plan members.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 17 - Postemployment Benefits**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$76,761 for fiscal year 2007. STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 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. 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.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for



**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$112,544.

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 the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

## **Note 18 - 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 year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 200 days for administrative personnel and 184 days for all other personnel. Upon retirement, all employees receive payment for one-fourth of accrued, but unused sick leave accumulation, up to a maximum of 50 days for administrative employees and 46 days for all other employees.

### ***B. Deferred Compensation***

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

## **Note 19 - Set Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year 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. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

**Shelby City School District**  
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	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-Aside Reserve Balance as of June 30, 2006	\$0	(\$69,593)
Current Year Set-aside Requirement	0	0
Current Year Offsets	(268,073)	0
<b>Total</b>	<b>(\$268,073)</b>	<b>(\$69,593)</b>
 Set-aside Balance Carried		
Forward to Future Fiscal Years	\$0	(\$69,593)
 Set-aside Reserve Balance as of June 30, 2007	\$0	\$0

Changes in law effective fiscal year 2006 allow school districts in fiscal emergency, such as Shelby City School District, to suspend by board resolution making deposits into the capital improvements and textbook and instructional materials reserves. The School District elected to suspend such contributions to the capital improvements and textbook and instructional materials reserves for fiscal year 2007. The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. The extra amount for textbooks may be used to reduce the set-aside requirement of future years. The extra amount in the capital acquisition set-aside may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

**Note 20 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2007.

***B. Litigation***

The School District is not a party to any legal proceedings.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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**Note 21 – Interfund Balances**

	Interfund Receivable
Interfund Payable	General
Other Governmental Funds:	
Title I	\$10
Title V	10,458
Miscellaneous Federal Grants	31,898
<i>Total Other Governmental Funds</i>	42,366
Enterprise Fund:	
Food Service	10,000
<i>Total All Funds</i>	\$52,366

Interfund receivables and payables are due to the timing of the receipt of grant monies received by the various funds. The general fund provides temporary funding of the program until the grant dollars are received in the following fiscal year. Advances made from the general fund to the food service enterprise fund were made to move unrestricted balances to support the program. The advance to the enterprise fund will be repaid when there is a sufficient amount of cash in this fund to do so.

**Note 22 – Public Utility Property Tax Refund**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of that refund is estimated to be approximately \$17,712 per year. A portion of the refund may be recovered from additional State entitlement payments.

**Note 23 – Situation of Financial Distress**

Based on a five year forecast, the Ohio Department of Education placed the School District in fiscal caution on October 8, 2004 pursuant to the Ohio Revised Code. On April 7, 2005, the Auditor of State placed the School District in fiscal emergency.

Major revenue factors which contributed to the School District's bleak financial projections included the failure to renew levies and a bankruptcy of a major company (taxpayer). Also, new development within the School District boundaries is very limited and property values have stagnated. The School District had also experienced significant reductions in State revenues, due to both declining student population and statewide reductions in the funding formula resulting from Ohio's economic crisis. Increased utility costs and double-digit health care increases also contributed to the School District fiscal crisis.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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During fiscal years 2005 through 2007 and continuing in fiscal year 2008, the School District took steps in order to regain financial stability. On May 3, 2005 the voters approved a one percent income tax that became effective on January 1, 2006, which is estimated to generate \$2,000,000 annually. In accordance with the recovery plan, the School District reduced staffing levels and closed one elementary school to reduce expenditures for the School District by an estimated \$3.2 million.

**Note 24 – Subsequent Event**

In August 2007 the School District experienced catastrophic flooding to the Middle School, Central School, the Football Stadium, the Gamble Street Technology Center and the Bus Garage. The current estimate of losses is \$1,400,000. The School District anticipates receiving reimbursement from its flood insurance, the inland marine portion of its property insurance and the Federal Emergency Management Agency (FEMA) for all or most of the losses.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed through the Ohio Department of Education:</i>						
Food Donation Program	N/A	10.550		\$47,901		\$47,901
Child Nutrition Cluster:						
School Breakfast Program	044776-05-PU-06	10.553	\$11,960		\$11,960	
	044776-05-PU-07		34,850		34,850	
Total School Breakfast Program			46,810		46,810	
National School Lunch Program	044776-LL-P4-06	10.555	71,077		71,077	
	044776-LL-P4-07		201,453		201,453	
Total National School Lunch Program			272,530		272,530	
Total Child Nutrition Cluster			319,340		319,340	
Total U.S. Department of Agriculture			319,340	47,901	319,340	47,901
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044776-C1-S1-06	84.010	34,196		41,860	
	044776-C1-S1-07		270,887		245,448	
Total Title I Grants to Local Educational Agencies			305,083		287,308	
Special Education - Grants to States	044776-6B-PB-05	84.027	0		3,205	
	044776-6B-SF-06		(1,886)		37,097	
	044776-6B-SF-07		536,072		536,072	
Total Special Education - Grants to States			534,186		576,374	
Safe and Drug-Free Schools and Communities - State Grants	044776-DR-S1-00	84.186	(998)		0	
	044776-DR-S1-06		8,467		10,022	
	044776-DR-S1-07		2,508		627	
Total Safe and Drug-Free Schools and Communities - State Grants			9,977		10,649	
State Grants for Innovative Programs	044776-C2-S1-03	84.298	0		646	
	044776-C2-S1-06		1,632		1,913	
	044776-C2-S1-07		5,764		3,620	
Total State Grants for Innovative Programs			7,396		6,179	
Education Technology State Grants	044776-TJ-S1-05	84.318	0		800	
	044776-TJ-S1-06		5,962		6,307	
	044776-TJ-S1-07		3,788		2,663	
Total Education Technology State Grants			9,750		9,770	
Improving Teacher Quality State Grants	044776-TR-S1-06	84.367	40,973		51,460	
	044776-TR-S1-07		87,087		76,857	
Total Improving Teacher Quality State Grants			128,060		128,317	
Total U.S. Department of Education			994,452		1,018,597	
<b>Totals</b>			<u>\$1,313,792</u>	<u>\$47,901</u>	<u>\$1,337,937</u>	<u>\$47,901</u>

*The notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this schedule.*

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION PROGRAM**

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

**NOTE C – CHILD NUTRITION CLUSTER**

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



# Mary Taylor, CPA

Auditor of State

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

Shelby City School District  
Richland County  
25 High School Avenue  
PO Box 31  
Shelby, Ohio 44875

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2008, in which we noted we were unable to obtain assurance regarding land and other capital assets net of depreciation, depreciation expense, and invested in capital assets net of related debt. In addition, we noted the District is experiencing certain financial difficulties. We also noted the Auditor of State served as the District's financial supervisor under Ohio Rev. Code Section 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District, because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code Section 118.04. 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: Finding Number 2007-001 through 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe Finding Number 2007-001 is also a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated January 4, 2008.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the 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 no instance of noncompliance or other matter we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated January 4, 2008.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 4, 2008





# Mary Taylor, CPA

Auditor of State

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

Shelby City School District  
Richland County  
25 High School Avenue  
PO Box 31  
Shelby, Ohio 44875

To the Board of Education:

### Compliance

We have audited the compliance of Shelby City School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Shelby City School District, Richland County, Ohio complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Mary Taylor, CPA**  
Auditor of State

January 4, 2008

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA 84.027 – Special Education Grants to States CFDA 10.553 and 10.555 – Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2007-001**

**Material Weakness**

**Capital Assets**

The District does not maintain a comprehensive written capital asset policy nor maintain comprehensive records to account for capital asset balances, additions, deletions and accumulated depreciation. The District has various capital asset reports that indicate different balances for capital assets, which do not agree to what is reported in the financial statements. Failure to update the capital asset listing when assets are purchased or deleted eliminates the ability of the District to accurately present the value of its capital assets.

### FINDING NUMBER 2007-001 (Continued)

The District should:

- Develop a capital asset policy that includes a capital asset recording threshold; a method for recording depreciation which includes the date the asset was placed in service and the point at which depreciation will begin (i.e., half year, full year, month or day) whenever an item is placed into service, salvage value (if any), and useful life.
- Appropriate documentation forms for the addition, deletion or movement of an asset from one location to another with approval for deletions by the Board of Education recorded in the District's minute records.
- Maintain a detailed capital asset list by asset class (i.e., buildings, vehicles, etc.) and by department/function which will assist in the preparation of the District's basic financial statements. The list should also accurately reflect all current and accumulated depreciation, District affixed tag numbers, serial numbers (where applicable), asset placed into service date, salvage value, market value, etc.
- Perform a physical count of capital assets to ensure all appropriate assets are properly included or excluded on the capital asset list and then perform periodic physical counts, at least annually, to ensure the capital asset list properly reflects the District's capital assets and the building utilizing the asset.

**Officials' Response:** A full inventory will begin on February 11, 2008. We are in the process of revising our Policy manual with the assistance of the Ohio School Board Association (OSBA). We anticipate resolution of the issues raised in this comment for the next fiscal year.

### FINDING NUMBER 2007-002

#### Significant Deficiency

##### Cash Reconciliation

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of the cash in the accounting records. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time. The District was unable to reconcile its bank balance to its book balance from July 2006 through April 2007.

As a result of not being able to reconcile the bank balance and book balance, the District hired an accounting firm to help them reconcile. The accounting firm and the Treasurer identified various errors including but not limited to, bank account transfer errors and over/under posting of certain expenses. As of April 30, 2007, the District reconciled its books to a variance of \$1,925 bank over books. This amount was posted to the District's books in April 2007 and the District was able to reconcile its books for the remainder of fiscal year 2007.

Without complete and accurate monthly bank reconciliations, the District's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The District should perform timely and complete monthly bank reconciliations. Also, the Treasurer should initial the bank reconciliation to indicate approval and a copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the Board of Education each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

**Officials' Response:** Cash is reconciled by the fifth business day of each month for the preceding month. As mentioned in the finding, the District corrected its cash reconciliation issues in April 2007 and reconciled its books for the remainder of fiscal year 2007. We are continuing to reconcile monthly and so anticipate that this issue will be fully resolved in the FY 08 audit.

### FINDING NUMBER 2007-003

#### Significant Deficiency

##### GAAP Issues

The following items were noted during GAAP testing:

- Intergovernmental receivables were understated due to two receipts relating to fiscal year 2007 being received by the District in August and September 2007, but not recorded as receivables. One of these amounts (\$42,729) was significant to the major food service fund and was adjusted to the financial statements. In addition, in the calculation of the receivables for the Federal grant funds, the amount actually received in fiscal year 2007 was incorrect, resulting in the remaining receivable amount being understated. However, these amounts were not significant and therefore were reported to management as unadjusted differences.
- The Accrued Wage Obligation Report had employees with negative accruals. This practice of having negative accruals on the Accrued Wage Obligation Report underestimates the true value of the accrued wages. However, these amounts were not significant and therefore were reported to management as unadjusted differences.
- When calculating the compensated absences for severance, there was no cap on the number of sick days that could be paid upon retirement. However, per the union agreement, there should have been a cap of 66 days. In addition, there were two employees that had incorrect sick leave amounts resulting in an overstatement of the compensated absences balance. However, these amounts were not significant and therefore were reported to management as unadjusted differences.
- Claims payable was calculated on the July and August 2007 lag report only, and did not include the IBNR. As a result, claims payable were understated by \$307,383. This amount was significant and was adjusted to the financial statements.
- There were funds with negative net assets totaling \$79,766 included in Restricted for Other Purposes Net Assets. This amount was significant and was adjusted to the financial statements. Any fund with a negative balance should be included in Unrestricted Net Assets.

The District should:

- Ensure all grants meeting the appropriate receivable recognition requirements are accrued. In addition, when calculating the receivable, the District should ensure the correct amount received is used.
- Review the Accrued Wage Obligation Report to ensure accruals are accurate. If amounts are not calculated correctly, the amounts should be manually calculated using the correct number of days accrued so the correct accrued wages are reflected.
- Ensure the appropriate cap for number of sick leave days permitted to be paid upon retirement is used when calculating the compensated absences liability. In addition, the District should ensure the correct sick leave balance is used for all employees.
- Ensure the claims payable liability includes both the IBNR (Incurred But Not Reported) and the actual payable amount (incurred and reported before year end, but not paid until after year end).

**FINDING NUMBER 2007-003 (Continued)**

- Ensure all funds with a negative balance are included in Unrestricted Net Assets and only those funds with a restriction on them are included in Restricted Net Assets.

A similar matter was reported in the June 30, 2006 financial statement audit's management letter.

**Officials' Response:** We will call these items to the attention of our GAAP converters and work with them to resolve the issues.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2006-001	Finding for Recovery Repaid Under Audit – A finding for recovery for \$210.60 was repaid under audit. The finding related to a student transportation reimbursement overpayment.	Yes	Corrected - Finding no longer valid.
2006-002	Noncompliance Citation - Ohio Rev. Code Section 3315.40 and Ohio Rev. Code Section 5705.41(B) – The District did not comply with certain expenditure requirements related to its Moody Scholarship Trust Fund	No	Not Fully Corrected - Comment repeated in the management letter.
2006-003	Reportable Condition – Moody Scholarship Trust Fund – The District did not record the activity of its trust fund on the District's books	Yes	Corrected – The District recognized the activity of its trust fund for financial reporting purposes.
2006-004	Reportable Condition – Cash Reconciliation – The District did not reconcile its book to bank balance until subsequent to year end.	No	Partially Corrected – The District began fully reconciling its book to bank balance in May 2007. See Finding Number 2007-002.
2006-005	Reportable Condition – Self Insurance Claim Payments – The District should implement procedures to ensure the amount transferred to its self-insurance fund administrator is adequately supported.	Yes	Corrected - Finding no longer valid.
2006-006	Material Weakness – Capital Assets – The District did not maintain sufficient capital assets records which resulted in a qualification of the auditor's opinion.	No	Not Corrected – See Finding Number 2007-001.
2006-007	Reportable Condition – The "Ohio's Donated Food Distribution Program Manual (rev. March 2003) – The District did not properly value and recognize all donated food commodities.	Yes	Corrected – Finding no longer valid.
2006-008	Noncompliance – 2 CFR 225 – The District did not adequately document federal expenditure adjustments for its Special Education Grant (CFDA 84.027)	Yes	Corrected – Finding no longer valid.







Mary Taylor, CPA  
Auditor of State

**SHELBY CITY SCHOOL DISTRICT**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 6, 2008**