



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 the Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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.

The Auditor of State served during a portion of the year ended June 30, 2008 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 mandates the Auditor of State to audit Ohio governments.

As further described in Note 3C to the basic financial statements, because of the inadequacy of capital asset accounting records as of July 1, 2007 and through March 4, 2008, the District was unable to account for the impairment of certain flood damaged capital assets in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement 42. Additionally, because of the inadequate prior capital assets records, we were unable to determine the value of assets damaged by the flood and therefore unable to obtain sufficient evidence regarding the restated July 1, 2007 governmental activity, business-type activities and food service fund's net asset balances.

In our opinion, except for the effects of not accounting for the impairment of flood damaged capital assets for the governmental activities, business-type activities and food service fund as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and food service fund of the Shelby City School District, Richland County, Ohio, as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows, thereof and 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 governmental fund and the aggregate remaining fund information for the Shelby City School District, Richland County, Ohio, as of June 30, 2008 and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the general fund and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2009, 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 3 to the basic financial statements, the District restated its July 1, 2007 governmental activities, business-type activities and food service fund net assets to account for prior overstatements of capital assets.

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 did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in paragraph four, the governmental activities, business-type activities and the food service fund financial statements do not account for losses associated with impaired capital assets.

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

February 13, 2009

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

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, 2008. 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 2008 are as follows:

- ❑ Net assets increased \$4,480,028. Net assets of governmental activities increased \$4,490,749 and net assets of business-type activities decreased \$10,721 from fiscal year 2007.
- ❑ For governmental activities general revenues accounted for \$17,940,956 in revenue or 84.32 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$3,337,156 or 15.68 percent of total revenues of \$21,278,112.
- ❑ The School District had \$17,859,672 in expenses related to governmental activities; only \$3,337,156 of these expenses were offset by program specific charges for services and sales, grants or contributions.
- ❑ Business-type activities had charges for services of \$595,916, grants of \$409,832 and interest of \$364 which were less than expenses of \$1,016,833.
- ❑ The School District had an extraordinary item due to insurance proceeds received by the School District to repair damages caused by a flood.

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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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 2008?" 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
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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

The School District restated beginning net assets as described in note 3B. 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 2008 compared to 2007:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
Assets						
Current and Other Assets	\$12,031,967	\$9,717,453	\$93,104	\$76,946	\$12,125,071	\$9,794,399
Capital Assets	2,580,574	2,256,448	21,183	29,543	2,601,757	2,285,991
Total Assets	14,612,541	11,973,901	114,287	106,489	14,726,828	12,080,390
Liabilities						
Long-Term Liabilities	1,947,551	2,224,033	57,740	46,897	2,005,291	2,270,930
Other Liabilities	8,040,313	9,615,940	83,220	75,544	8,123,533	9,691,484
Total Liabilities	9,987,864	11,839,973	140,960	122,441	10,128,824	11,962,414
Net Assets						
Invested in Capital						
Assets, Net of Related Debt	2,055,574	1,626,448	21,183	29,543	2,076,757	1,655,991
Restricted	746,682	395,476	0	0	746,682	395,476
Unrestricted (Deficit)	1,822,421	(1,887,996)	(47,856)	(45,495)	1,774,565	(1,933,491)
Total Net Assets (Deficit)	\$4,624,677	\$133,928	(\$26,673)	(\$15,952)	\$4,598,004	\$117,976

Net assets of the School District's governmental activities increased \$4,490,749 from the prior fiscal year. The majority of this change is the result of a reduction in liabilities due to the repayment of debt and an increase in cash due to increased revenues.

The net assets of the School District's business-type activities decreased \$10,721 from the prior fiscal year. This change is the result of an increase in the compensated absences payable liability.

Shelby City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 2 shows the changes in net assets for fiscal year 2008.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
Revenues						
Program Revenues:						
Charges for Services and Sales	\$594,317	\$631,536	\$595,916	\$636,688	\$1,190,233	\$1,268,224
Operating Grants and Contributions	2,733,703	2,310,613	409,832	379,987	3,143,535	2,690,600
Capital Grants and Contributions	9,136	13,806	0	0	9,136	13,806
Total Program Revenues	3,337,156	2,955,955	1,005,748	1,016,675	4,342,904	3,972,630
General Revenues:						
Property Taxes	7,193,167	6,598,358	0	0	7,193,167	6,598,358
Income Taxes	2,432,914	2,159,818	0	0	2,432,914	2,159,818
Grants and Entitlements, Not Restricted	8,056,952	8,078,111	0	0	8,056,952	8,078,111
Investment Earnings	181,663	130,835	364	1,579	182,027	132,414
Miscellaneous	76,260	313,922	0	0	76,260	313,922
Total General Revenues	17,940,956	17,281,044	364	1,579	17,941,320	17,282,623
Total Revenues	21,278,112	20,236,999	1,006,112	1,018,254	22,284,224	21,255,253
Expenses						
Instruction	10,369,655	10,347,815	0	0	10,369,655	10,347,815
Support Services:						
Pupil and Instructional Staff	2,079,413	2,282,223	0	0	2,079,413	2,282,223
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, and Central Operation and Maintenance of Plant	2,120,982	2,257,067	0	0	2,120,982	2,257,067
Pupil Transportation	1,802,780	1,627,109	0	0	1,802,780	1,627,109
Extracurricular Activities	790,438	761,446	0	0	790,438	761,446
Interest and Fiscal Charges	633,564	553,339	0	0	633,564	553,339
Enterprise Operations	62,840	72,705	0	0	62,840	72,705
	0	0	1,016,833	1,023,554	1,016,833	1,023,554
Total Expenses	17,859,672	17,901,704	1,016,833	1,023,554	18,876,505	18,925,258
Extraordinary Item						
Insurance Proceeds	1,072,309	0	0	0	1,072,309	0
Increase (Decrease) in Net Assets	4,490,749	2,335,295	(10,721)	(5,300)	4,480,028	2,329,995
Net Assets (Deficit) Beginning of Year - Restated(See Note 3)						
	133,928	(2,201,367)	(15,952)	(10,652)	117,976	(2,212,019)
Net Assets (Deficit) End of Year	\$4,624,677	\$133,928	(\$26,673)	(\$15,952)	\$4,598,004	\$117,976

Shelby City School District
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Total revenues of governmental activities increased by 5.14 percent. This increase was due to:

- During fiscal year 2008 property tax revenues increased by \$594,809 due mostly to \$434,046 available as an advance in 2007 and \$1,111,080 available as an advance in 2008.

Total expenses of governmental activities decreased by less than 1 percent. This minimal decrease was due to careful monitoring of expenses by the School District.

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 \$7,193,167 in 2008. General revenues from grants and entitlements, such as the school foundation program, generated \$8,056,952. With the combination of property taxes and intergovernmental funding covering over 85.39 percent of all expenses the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 58.06 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, 2008
Unaudited

Table 3
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$10,369,655	\$10,347,815	(\$8,601,565)	(\$9,021,487)
Support Services:				
Pupil and Instructional Staff	2,079,413	2,282,223	(1,402,399)	(1,553,860)
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, and Central	2,120,982	2,257,067	(1,886,279)	(2,002,579)
Operation and Maintenance of Plant	1,802,780	1,627,109	(1,752,071)	(1,602,609)
Pupil Transportation	790,438	761,446	(343,769)	(302,458)
Extracurricular Activities	633,564	553,339	(473,593)	(390,051)
Interest and Fiscal Charges	62,840	72,705	(62,840)	(72,705)
Total Expenses	\$17,859,672	\$17,901,704	(\$14,522,516)	(\$14,945,749)

Business-Type Activities

Business-type activities include the food service operation and uniform school supplies. These programs had revenues of \$1,006,112 and expenses of \$1,016,833 for fiscal year 2008. To ensure that the net assets are not reduced further in fiscal year 2009, 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 and other financing sources of \$22,380,264 and expenditures and other financing uses of \$19,288,334. The net change in fund balance for the year was an increase of \$3,091,930. The general fund had revenues that exceeded expenditures by \$2,654,176 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 2008, the School District amended its general fund budget numerous times to account for fluctuations.

For the general fund, the original budget basis revenue was \$18,925,500, above final budget estimates of \$18,270,420. Of this \$655,080 difference, most was due to changes in estimated property taxes. Actual revenues were \$18,676,630, \$406,210 more than the final budget. The original appropriations of \$17,545,630 were increased several times. Final appropriations were \$18,160,176. Actual expenditures were \$18,013,999, only \$146,177 less than anticipated.

Shelby City School District
Management's Discussion and Analysis
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$2,601,757 invested in capital assets, net of depreciation, with \$2,580,574 used for governmental activities. Table 4 shows fiscal year 2008 balances compared to fiscal year 2007:

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

	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
	Land	\$348,364	\$348,364	\$0	\$0	\$348,364
Land Improvements	237,347	217,754	0	0	237,347	217,754
Buildings and Improvements	1,116,823	785,077	0	0	1,116,823	785,077
Furniture and Equipment	309,661	217,203	21,183	29,543	330,844	246,746
Vehicles	320,278	391,754	0	0	320,278	391,754
Textbooks	248,101	296,296	0	0	248,101	296,296
Totals	\$2,580,574	\$2,256,448	\$21,183	\$29,543	\$2,601,757	\$2,285,991

The increase in capital assets is due mostly to additions in buildings and improvements and furniture and equipment, partially offset by depreciation. For more information on capital assets refer to Note 9 to the Basic Financial Statements.

Debt Administration

At June 30, 2008 the School District had \$1,238,593 in debt outstanding with \$388,593 due within one year.

Table 5 summarizes the debt outstanding:

Table 5
 Outstanding Debt at June 30

	Governmental Activities 2008	Governmental Activities 2007
State of Ohio Bankruptcy Loan	\$78,593	\$157,187
Energy Conservation Bonds	525,000	630,000
Tax Anticipation Notes	635,000	830,000
Total	\$1,238,593	\$1,617,187

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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 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.

The tax anticipation notes were issued to pay operating expenditures of the School District until the tax levy collection 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.

At June 30, 2008, the School District's overall legal debt margin was \$18,166,460 with an unvoted debt margin of \$207,683. For more information, refer to Note 10 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. The State advance related to the fiscal emergency was fully repaid in June 2007. During fiscal year 2008, the School District was released from fiscal emergency. In the spring of 2009, we will begin negotiations on new contracts for certified and classified staff.

In conclusion, the Shelby City School District has faced serious financial challenges over the past several years. 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.

Shelby City School District

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,230,615	\$76,075	\$4,306,690
Cash and Cash Equivalents			
With Fiscal Agent	10,079	0	10,079
Accrued Interest Receivable	2,218	0	2,218
Accounts Receivable	1,234	0	1,234
Intergovernmental Receivable	124,536	0	124,536
Property Tax Receivable	6,730,158	0	6,730,158
Income Tax Receivable	875,098	0	875,098
Internal Balances	(8,319)	8,319	0
Inventory Held for Resale	0	7,924	7,924
Materials and Supplies Inventory	66,348	786	67,134
Nondepreciable Capital Assets	348,364	0	348,364
Depreciable Capital Assets, Net	2,232,210	21,183	2,253,393
<i>Total Assets</i>	<u>14,612,541</u>	<u>114,287</u>	<u>14,726,828</u>
Liabilities			
Accounts Payable	132,878	13,438	146,316
Accrued Wages Payable	1,294,954	36,461	1,331,415
Intergovernmental Payable	438,786	33,321	472,107
Matured Compensated Absences Payable	181,625	0	181,625
Deferred Revenue	5,143,120	0	5,143,120
Accrued Interest Payable	4,533	0	4,533
Notes Payable	635,000	0	635,000
Claims Payable	131,751	0	131,751
Early Retirement Incentive Payable	77,666	0	77,666
Long-Term Liabilities:			
Due Within One Year	350,819	465	351,284
Due In More Than One Year	1,596,732	57,275	1,654,007
<i>Total Liabilities</i>	<u>9,987,864</u>	<u>140,960</u>	<u>10,128,824</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,055,574	21,183	2,076,757
Restricted for:			
Capital Outlay	228,866	0	228,866
Other Purposes	517,816	0	517,816
Unrestricted (Deficit)	1,822,421	(47,856)	1,774,565
<i>Total Net Assets</i>	<u>\$4,624,677</u>	<u>(\$26,673)</u>	<u>\$4,598,004</u>

See accompanying notes to the basic financial statements

Shelby City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$8,152,418	\$192,564	\$568,336	\$0
Special	2,050,730	41,927	961,485	0
Vocational	166,507	3,778	0	0
Support Services:				
Pupil	866,240	63,412	24,133	0
Instructional Staff	1,213,173	17,395	572,074	0
Board of Education	34,691	764	0	0
Administration	1,256,975	31,340	25,219	0
Fiscal	715,661	15,861	0	0
Operation and Maintenance of Plant	1,802,780	50,709	0	0
Pupil Transportation	790,438	18,038	419,495	9,136
Central	50,467	1,000	7,060	0
Operation of Non-Instructional Services	63,188	5,149	148,310	0
Extracurricular Activities	633,564	152,380	7,591	0
Interest and Fiscal Charges	62,840	0	0	0
<i>Total Governmental Activities</i>	<u>17,859,672</u>	<u>594,317</u>	<u>2,733,703</u>	<u>9,136</u>
Business-Type Activities				
Food Service	963,655	543,279	409,832	0
Uniform School Supplies	53,178	52,637	0	0
<i>Total Business-Type Activities</i>	<u>1,016,833</u>	<u>595,916</u>	<u>409,832</u>	<u>0</u>
Totals	<u><u>\$18,876,505</u></u>	<u><u>\$1,190,233</u></u>	<u><u>\$3,143,535</u></u>	<u><u>\$9,136</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Capital Outlay

Income Taxes Levied for General Purposes

Grants and Entitlements not Restricted

to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Extraordinary Item

Insurance Proceeds

Total General Revenues and Extraordinary Item

Change in Net Assets

*Net Assets (Deficit) Beginning
of Year - Restated (See Note 3)*

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$7,391,518)	\$0	(\$7,391,518)
(1,047,318)	0	(1,047,318)
(162,729)	0	(162,729)
(778,695)	0	(778,695)
(623,704)	0	(623,704)
(33,927)	0	(33,927)
(1,200,416)	0	(1,200,416)
(699,800)	0	(699,800)
(1,752,071)	0	(1,752,071)
(343,769)	0	(343,769)
(42,407)	0	(42,407)
90,271	0	90,271
(473,593)	0	(473,593)
(62,840)	0	(62,840)
<u>(14,522,516)</u>	<u>0</u>	<u>(14,522,516)</u>
0	(10,544)	(10,544)
0	(541)	(541)
0	(11,085)	(11,085)
<u>(14,522,516)</u>	<u>(11,085)</u>	<u>(14,533,601)</u>
6,897,984	0	6,897,984
295,183	0	295,183
2,432,914	0	2,432,914
8,056,952	0	8,056,952
181,663	364	182,027
76,260	0	76,260
<u>17,940,956</u>	<u>364</u>	<u>17,941,320</u>
<u>1,072,309</u>	<u>0</u>	<u>1,072,309</u>
<u>19,013,265</u>	<u>364</u>	<u>19,013,629</u>
4,490,749	(10,721)	4,480,028
<u>133,928</u>	<u>(15,952)</u>	<u>117,976</u>
<u>\$4,624,677</u>	<u>(\$26,673)</u>	<u>\$4,598,004</u>

Shelby City School District

Balance Sheet

Governmental Funds

June 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,004,222	\$807,602	\$3,811,824
Accrued Interest Receivable	2,218	0	2,218
Accounts Receivable	634	600	1,234
Interfund Receivable	17,591	0	17,591
Intergovernmental Receivable	0	124,536	124,536
Materials and Supplies Inventory	66,348	0	66,348
Income Taxes Receivable	875,098	0	875,098
Property Taxes Receivable	6,455,988	274,170	6,730,158
<i>Total Assets</i>	<u>\$10,422,099</u>	<u>\$1,206,908</u>	<u>\$11,629,007</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$92,621	\$40,257	\$132,878
Accrued Wages Payable	1,209,221	85,733	1,294,954
Interfund Payable	0	17,591	17,591
Intergovernmental Payable	393,054	45,732	438,786
Matured Compensated Absences Payable	178,603	3,022	181,625
Deferred Revenue	5,390,126	311,463	5,701,589
Accrued Interest Payable	2,302	0	2,302
Early Retirement Incentive Payable	77,666	0	77,666
Notes Payable	635,000	0	635,000
<i>Total Liabilities</i>	<u>7,978,593</u>	<u>503,798</u>	<u>8,482,391</u>
 Fund Balances			
Reserved for Encumbrances	235,127	245,567	480,694
Reserved for Property Taxes	1,065,862	45,218	1,111,080
Unreserved, Undesignated Reported In:			
General Fund	1,142,517	0	1,142,517
Special Revenue Funds	0	340,050	340,050
Capital Projects Funds	0	72,275	72,275
<i>Total Fund Balances</i>	<u>2,443,506</u>	<u>703,110</u>	<u>3,146,616</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,422,099</u>	<u>\$1,206,908</u>	<u>\$11,629,007</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, 2008*

Total Governmental Funds Balances		\$3,146,616
 <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.		2,580,574
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	475,958	
Intergovernmental	<u>82,511</u>	
Total		558,469
 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	297,119	
Internal Balances	<u>(8,319)</u>	
Total		288,800
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		(2,231)
 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Energy Conservation Bonds	(525,000)	
State of Ohio Bankruptcy Loan	(78,593)	
Compensated Absences	<u>(1,343,958)</u>	
Total		<u>(1,947,551)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$4,624,677</u></u>

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, 2008

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$6,915,792	\$296,948	\$7,212,740
Income Taxes	2,432,914	0	2,432,914
Intergovernmental	9,103,013	1,342,198	10,445,211
Interest	172,787	1,241	174,028
Tuition and Fees	354,939	0	354,939
Extracurricular Activities	0	213,095	213,095
Rentals	26,283	0	26,283
Contributions and Donations	205,053	86,370	291,423
Miscellaneous	42,127	34,133	76,260
<i>Total Revenues</i>	<u>19,252,908</u>	<u>1,973,985</u>	<u>21,226,893</u>
Expenditures			
Current:			
Instruction:			
Regular	8,203,917	254,679	8,458,596
Special	1,879,285	218,151	2,097,436
Vocational	193,123	0	193,123
Support Services:			
Pupil	809,337	74,641	883,978
Instructional Staff	775,528	504,043	1,279,571
Board of Education	34,691	0	34,691
Administration	1,309,619	9,899	1,319,518
Fiscal	714,889	6,190	721,079
Operation and Maintenance of Plant	2,290,371	32,080	2,322,451
Pupil Transportation	750,684	1,924	752,608
Central	45,407	4,000	49,407
Operation of Non-Instructional Services	0	118,126	118,126
Extracurricular Activities	413,659	150,822	564,481
Capital Outlay	0	165,326	165,326
Debt Service:			
Principal Retirement	183,594	0	183,594
Interest and Fiscal Charges	63,287	0	63,287
<i>Total Expenditures</i>	<u>17,667,391</u>	<u>1,539,881</u>	<u>19,207,272</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,585,517</u>	<u>434,104</u>	<u>2,019,621</u>
Other Financing Sources (Uses)			
Insurance Proceeds	1,072,309	0	1,072,309
Transfers In	38,706	42,356	81,062
Transfers Out	(42,356)	(38,706)	(81,062)
<i>Total Other Financing Sources (Uses)</i>	<u>1,068,659</u>	<u>3,650</u>	<u>1,072,309</u>
<i>Net Change in Fund Balances</i>	2,654,176	437,754	3,091,930
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(210,670)</u>	<u>265,356</u>	<u>54,686</u>
<i>Fund Balances End of Year</i>	<u>\$2,443,506</u>	<u>\$703,110</u>	<u>\$3,146,616</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, 2008*

Net Change in Fund Balances - Total Governmental Funds \$3,091,930

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

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

Capital Assets Additions	639,987	
Current Year Depreciation	(315,861)	
Total		324,126

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

Delinquent Property Taxes	(19,573)	
Intergovernmental	63,157	
Total		43,584

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.

92,888

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

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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	775,905	
Internal Balances	(21,725)	
Total		754,180

Change in Net Assets of Governmental Activities \$4,490,749

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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,683,000	\$6,101,580	\$6,265,463	\$163,883
Income Taxes	2,200,000	2,300,000	2,494,903	194,903
Intergovernmental	9,245,800	8,991,840	9,103,013	111,173
Interest	150,000	205,300	174,718	(30,582)
Tuition and Fees	390,200	405,200	354,939	(50,261)
Rentals	24,500	24,500	26,283	1,783
Contributions and Donations	200,000	210,000	205,053	(4,947)
Miscellaneous	32,000	32,000	52,258	20,258
<i>Total Revenues</i>	18,925,500	18,270,420	18,676,630	406,210
Expenditures				
Current:				
Instruction:				
Regular	7,892,526	8,121,530	8,059,540	61,990
Special	1,846,424	1,977,393	1,975,359	2,034
Vocational	234,310	189,310	184,535	4,775
Support Services:				
Pupil	739,560	726,594	720,516	6,078
Instructional Staff	684,640	818,040	816,939	1,101
Board of Education	79,627	79,627	56,979	22,648
Administration	1,186,930	1,296,415	1,295,231	1,184
Fiscal	680,200	733,555	731,621	1,934
Operation and Maintenance of Plant	2,477,893	2,412,943	2,401,799	11,144
Pupil Transportation	864,797	866,726	863,983	2,743
Central	60,100	60,100	45,407	14,693
Extracurricular Activities	435,440	435,340	419,502	15,838
Debt Service:				
Principal Retirement	300,000	378,600	378,594	6
Interest and Fiscal Charges	63,183	64,003	63,994	9
<i>Total Expenditures</i>	17,545,630	18,160,176	18,013,999	146,177
<i>Excess of Revenues Over Expenditures</i>	1,379,870	110,244	662,631	552,387
Other Financing Sources (Uses)				
Insurance Proceeds	0	1,073,000	1,072,309	(691)
Transfers In	0	0	38,706	38,706
Advances In	10,000	10,000	10,000	0
Advances Out	(2,500)	(10,000)	(17,581)	(7,581)
<i>Total Other Financing Sources (Uses)</i>	7,500	1,073,000	1,103,434	30,434
<i>Net Change in Fund Balance</i>	1,387,370	1,183,244	1,766,065	582,821
<i>Fund Balance Beginning of Year</i>	773,282	773,282	773,282	0
Prior Year Encumbrances Appropriated	130,957	130,957	130,957	0
<i>Fund Balance End of Year</i>	\$2,291,609	\$2,087,483	\$2,670,304	\$582,821

See accompanying notes to the basic financial statements

Shelby City School District

Statement of Fund Net Assets

Proprietary Funds

June 30, 2008

	Business-Type Activities - Enterprise Funds			
	Food Service	Nonmajor Enterprise Fund	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$31,203	\$44,872	\$76,075	\$418,791
Cash and Cash Equivalents				
With Fiscal Agent	0	0	0	10,079
Inventory Held for Resale	7,924	0	7,924	0
Materials and Supplies Inventory	786	0	786	0
<i>Total Current Assets</i>	39,913	44,872	84,785	428,870
<i>Noncurrent Assets</i>				
Depreciable Capital Assets, Net	21,183	0	21,183	0
<i>Total Assets</i>	61,096	44,872	105,968	428,870
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	7,027	6,411	13,438	0
Accrued Wages Payable	36,461	0	36,461	0
Intergovernmental Payable	33,321	0	33,321	0
Compensated Absences Payable	465	0	465	0
Claims Payable	0	0	0	131,751
<i>Total Current Liabilities</i>	77,274	6,411	83,685	131,751
<i>Long-Term Liabilities</i>				
Compensated Absences Payable (net of current portion)	57,275	0	57,275	0
<i>Total Liabilities</i>	134,549	6,411	140,960	131,751
Net Assets				
Invested in Capital Assets	21,183	0	21,183	0
Unrestricted (Deficit)	(94,636)	38,461	(56,175)	297,119
<i>Total Net Assets (Deficit)</i>	(\$73,453)	\$38,461	(34,992)	\$297,119

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.

8,319

Net Assets of Business-Type Activities

(\$26,673)

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, 2008*

	<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>
Operating Revenues				
Sales	\$543,279	\$52,637	\$595,916	\$0
Charges for Services	0	0	0	2,797,660
Miscellaneous	0	0	0	150,918
<i>Total Operating Revenues</i>	<u>543,279</u>	<u>52,637</u>	<u>595,916</u>	<u>2,948,578</u>
Operating Expenses				
Salaries	307,030	0	307,030	0
Fringe Benefits	250,635	0	250,635	0
Purchased Services	15,588	0	15,588	546,696
Cost of Sales	403,767	53,178	456,945	0
Depreciation	8,360	0	8,360	0
Claims	0	0	0	1,633,612
<i>Total Operating Expenses</i>	<u>985,380</u>	<u>53,178</u>	<u>1,038,558</u>	<u>2,180,308</u>
<i>Operating Income (Loss)</i>	<u>(442,101)</u>	<u>(541)</u>	<u>(442,642)</u>	<u>768,270</u>
Non-Operating Revenues				
Donated Commodities	56,565	0	56,565	0
Operating Grants	353,267	0	353,267	0
Investment Earnings	364	0	364	7,635
<i>Total Non-Operating Revenues</i>	<u>410,196</u>	<u>0</u>	<u>410,196</u>	<u>7,635</u>
<i>Change in Net Assets</i>	(31,905)	(541)	(32,446)	775,905
<i>Net Assets (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>(41,548)</u>	<u>39,002</u>		<u>(478,786)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$73,453)</u></u>	<u><u>\$38,461</u></u>		<u><u>\$297,119</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.

	21,725
<i>Change in Net Assets of Business-Type Activities</i>	(\$10,721)

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, 2008

	<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>
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$543,495	\$52,637	\$596,132	\$0
Cash Received from Interfund Services Provided	0	0	0	2,797,660
Other Cash Receipts	0	0	0	150,918
Cash Payments to Employees for Services	(304,063)	0	(304,063)	0
Cash Payments for Employee Benefits	(242,438)	0	(242,438)	0
Cash Payments for Goods and Services	(362,135)	(50,482)	(412,617)	(546,696)
Cash Payments for Claims	0	0	0	(2,051,118)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(365,141)</u>	<u>2,155</u>	<u>(362,986)</u>	<u>350,764</u>
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	395,996	0	395,996	0
Advances Out	(10,000)	0	(10,000)	0
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>385,996</u>	<u>0</u>	<u>385,996</u>	<u>0</u>
Cash Flows from Investing Activities				
Interest on Investments	364	0	364	7,635
<i>Net Increase in Cash and Cash Equivalents</i>	21,219	2,155	23,374	358,399
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>9,984</u>	<u>42,717</u>	<u>52,701</u>	<u>70,471</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$31,203</u>	<u>\$44,872</u>	<u>\$76,075</u>	<u>\$428,870</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, 2008

	<u>Business-Type Activities - Enterprise Funds</u>			
	Food	Nonmajor	Business-Type	Governmental
	<u>Service</u>	<u>Enterprise</u>	<u>Activities -</u>	<u>Activities -</u>
	Fund	Enterprise	Enterprise	Internal
	Funds	Service Fund	Funds	Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	(\$442,101)	(\$541)	(\$442,642)	\$768,270
Adjustments:				
Depreciation	8,360	0	8,360	0
Donated Commodities Received During the Year	56,565	0	56,565	0
Increase (Decrease) in Assets:				
Accounts Receivable	216	0	216	0
Inventory Held for Resale	(4,280)	0	(4,280)	0
Materials and Supplies Inventory	276	0	276	0
Increase (Decrease) in Liabilities:				
Accounts Payable	4,659	2,696	7,355	0
Accrued Wages	4,098	0	4,098	0
Compensated Absences Payable	8,197	0	8,197	0
Intergovernmental Payable	(1,131)	0	(1,131)	0
Claims Payable	0	0	0	(417,506)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(\$365,141)</u>	<u>\$2,155</u>	<u>(\$362,986)</u>	<u>\$350,764</u>

Non-Cash Noncapital Activities

Federal donated commodities in the amount of \$56,565 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, 2008

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$625,783	\$100,140
Investments in Common Stock	40,088	0
Investments in Segregated Accounts	225,391	0
<i>Total Assets</i>	<u>891,262</u>	<u>\$100,140</u>
Liabilities		
Undistributed Monies	0	\$1,482
Due to Students	0	98,658
<i>Total Liabilities</i>	<u>0</u>	<u>\$100,140</u>
Net Assets		
Held in Trust for Scholarships	<u>\$891,262</u>	

See accompanying notes to the basic financial statements

Shelby City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2008

	Scholarship
Additions	
Interest	\$6,243
Contributions and Donations	20,000
<i>Total Additions</i>	26,243
Deductions	
Scholarships Awarded	13,219
<i>Change in Net Assets</i>	13,024
<i>Net Assets Beginning of Year</i>	878,238
<i>Net Assets End of Year</i>	\$891,262

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, 2008

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 three elementary schools, one middle school and one high school staffed by 73 classified employees and 144 certificated full-time teaching personnel who provide services to 2,204 students and other community members.

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 three jointly governed organizations and an insurance purchasing pool. These organizations include the Pioneer Career and Technology Center, Metropolitan Educational Council, the Heartland Council of Governments and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 12 and 13 to the basic financial statements.

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 enterprise funds. The more significant of the School District's accounting policies are described below.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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 general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 funds account for student activities and employee donations.

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.

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.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 and invested in other securities which are presented as “invested in segregated accounts” on the balance sheet, 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 2008, investments were limited to STAROhio and donated common stock. The common stock is reported at fair value which is based on quoted market price.

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, 2008.

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 2008 amounted to \$172,787, which includes \$29,326 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, 2008, 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.

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

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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
Textbooks	5 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 10 years of current service with the School District.

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

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.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 \$746,682 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 the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

O. Internal Activity

Transfers between governmental funds are eliminated in the governmental-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

P. 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. The extraordinary item was due to insurance proceeds received by the School District to repair damage caused by a flood.

Q. Estimates

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

R. 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.

Note 3 – Change in Accounting Principles and Restatement of Prior Year Net Assets

A. Change in Accounting Principles

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the STRS and the SERS post-employment healthcare plans in the amounts of \$10,347 and \$51,388, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

B. Restatement of Prior Year Net Assets

During fiscal year 2008, it was determined that net assets of governmental activities were overstated by \$2,189,048 at June 30, 2007 due to capital assets being overstated. This restatement decreased net assets from \$2,322,976 to \$133,928.

During fiscal year 2008, it was determined that net assets of business-type activities were overstated by \$29,265 at June 30, 2007 due to capital assets being overstated. This restatement decreased the net assets from \$13,313 to a deficit of \$15,952.

C. Departure From GAAP

Because of the inadequacy of capital assets accounting records as of July 1, 2007 and through March 4, 2008 (the date the independent appraisal was performed) the District was unable to account for the impairment of certain capital assets which were damaged by a flood occurring in August 2007 in accordance with the requirements of Governmental Accounting Standards Board Statement 42.

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).

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

Net Change in Fund Balance

GAAP Basis	\$2,654,176
Net Adjustment for Revenue Accruals	(576,278)
Advances In	10,000
Net Adjustment for Expenditure Accruals	29,666
Advances Out	(17,581)
Encumbrances	(333,918)
Budget Basis	<u><u>\$1,766,065</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;

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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;
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, \$207,317 of the School District's bank balance of \$307,317 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the collateral 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, 2008, the School District had the following investments:

	Fair Value	Maturity
STAROhio	\$4,811,668	53.8 Days
Common Stock	40,088	N/A
Total Portfolio	\$4,851,756	

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.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to 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, 2008, are available to finance fiscal year 2009 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, 2008 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, 2008 was \$1,065,862 in the general fund and \$45,218 in the permanent improvement capital projects fund. 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.

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
For the Fiscal Year Ended June 30, 2008

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$202,696,890	83.05%	\$203,298,550	91.12%
Public Utility Personal	7,442,580	3.05	5,887,770	2.64
General Business Personal	33,917,805	13.90	13,920,753	6.24
	\$244,057,275	100.00%	\$223,107,073	100.00%
Tax Rate per \$1,000 of assessed valuation		\$49.40		\$49.80

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, 2008, 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:

Governmental Activities	
Title I	\$52,449
Improving Teacher Quality	33,168
Title VI-B	25,060
Drug Free Grant	5,462
Miscellaneous Federal Grants	4,560
Title V	3,837
Total Governmental Activities	\$124,536

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Restated 7/1/2007	Additions	Deductions	Balance 6/30/2008
Governmental Activities				
<i>Non-Depreciable Assets</i>				
Land	\$348,364	\$0	\$0	\$348,364
<i>Depreciable Assets</i>				
Land Improvements	1,479,770	87,629	0	1,567,399
Building and Improvements	6,202,305	385,249	0	6,587,554
Furniture and Equipment	969,625	156,264	0	1,125,889
Vehicles	1,138,790	10,845	0	1,149,635
Textbooks	1,285,113	0	0	1,285,113
<i>Total Depreciable Assets</i>	<u>11,075,603</u>	<u>639,987</u>	<u>0</u>	<u>11,715,590</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,262,016)	(68,036)	0	(1,330,052)
Building and Improvements	(5,417,228)	(53,503)	0	(5,470,731)
Furniture and Equipment	(752,422)	(63,806)	0	(816,228)
Vehicles	(747,036)	(82,321)	0	(829,357)
Textbooks	(988,817)	(48,195)	0	(1,037,012)
<i>Total Accumulated Depreciation</i>	<u>(9,167,519)</u>	<u>(315,861) *</u>	<u>0</u>	<u>(9,483,380)</u>
<i>Depreciable Capital Assets, Net</i>	<u>1,908,084</u>	<u>324,126</u>	<u>0</u>	<u>2,232,210</u>
Governmental Activities Capital Assets, Net	<u>\$2,256,448</u>	<u>\$324,126</u>	<u>\$0</u>	<u>\$2,580,574</u>
Business-Type Activities				
Furniture and Equipment	\$95,363	\$0	\$0	\$95,363
Less Accumulated Depreciation	(65,820)	(8,360)	0	(74,180)
Business-Type Activities Capital Assets, Net	<u>\$29,543</u>	<u>(\$8,360)</u>	<u>\$0</u>	<u>\$21,183</u>

On March 4, 2008, the District had an independent capital asset appraisal performed. This appraisal resulted in reductions of \$2,189,048 and \$29,265 in the governmental activity and business-type activity/food service fund, capital asset balances, respectively. The July 1, 2007, balances in the above table reflect these restated amounts.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$126,377
Vocational	2,762
Support Services:	
Instructional Staff	3,490
Administration	17,917
Fiscal	1,864
Operation and Maintenance of Plant	7,874
Pupil Transportation	82,256
Central	1,060
Extracurricular Activities	72,261
Total Depreciation Expense	\$315,861

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

Note 10 – Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2008 were as follows:

	Principal Outstanding 6/30/2007	Additions	Reductions	Principal Outstanding 6/30/2008	Amounts Due in One Year
Governmental Activities					
Energy Conservation Bonds	\$630,000	\$0	\$105,000	\$525,000	\$105,000
State of Ohio Bankruptcy Loan	157,187	0	78,594	78,593	78,593
Compensated Absences	1,436,846	88,737	181,625	1,343,958	167,226
Total Governmental Activities Long-Term Liabilities	\$2,224,033	\$88,737	\$365,219	\$1,947,551	\$350,819
Business-Type Activities					
Compensated Absences	\$46,897	\$10,843	\$0	\$57,740	\$465

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.

State of Ohio Bankruptcy Loan – The State of Ohio Bankruptcy loan is due to a local business filing for Chapter Eleven receivership. This loan was issued to provide money for school district operations to help offset the loss of tax revenue due to the bankruptcy of the business. 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.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The overall debt margin of the School District as of June 30, 2008 was \$18,166,460 with an unvoted debt margin of \$207,683. Principal and interest requirements to retire long-term obligations outstanding at June 30, 2008 are as follows:

Fiscal Year Ending June 30	Energy Conservation		Bankruptcy Loan
	Principal	Interest	Principal
2009	\$105,000	\$26,775	\$78,593
2010	105,000	21,420	0
2011	105,000	16,065	0
2012	105,000	10,710	0
2013	105,000	5,355	0
Total	<u>\$525,000</u>	<u>\$80,325</u>	<u>\$78,593</u>

Note 11 – Notes Payable

	Principal Outstanding 6/30/2007	Additions	Reductions	Principal Outstanding 6/30/2008	Amounts Due in One Year
	Governmental Activities				
Tax Anticipation Notes	<u>\$830,000</u>	<u>\$0</u>	<u>\$195,000</u>	<u>\$635,000</u>	<u>\$205,000</u>

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. Principal and interest requirements to retire tax anticipation note obligations outstanding at June 30, 2008 are as follows:

Fiscal Year Ending June 30	Tax Anticipation Notes	
	Principal	Interest
2009	\$205,000	\$23,164
2010	210,000	14,138
2011	220,000	4,785
2012	0	0
2013	0	0
Total	<u>\$635,000</u>	<u>\$42,087</u>

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 12 - 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. To obtain financial information write to the Metropolitan Education Council, Sue Ward Fiscal Officer, 2100 Citygate Drive, Columbus, OH 43219.

C. Heartland Council of Governments (COG)

The Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG") is a jointly governed organization among 16 school districts, 1 educational service center and career center. The COG is an association of public schools within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2008, the School District paid \$73,265 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Note 13 - 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, 2008

Note 14 - 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 2008, the School District's insurance coverage was as follows:

Type of Coverage	Deductible	Coverage
Building and Contents-replacement cost	\$2,500	\$52,411,665
Electronic Data Processing Equipment	1,000	1,469,800
Automobile Liability	250/500	1,000,000
Uninsured Motorist		1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability		2,000,000
Employer's Liability		3,000,000

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 13). 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 \$131,751 reported in the internal service fund at June 30, 2008 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
2007	\$513,379	\$2,808,052	\$2,772,174	\$549,257
2008	549,257	1,633,612	2,051,118	131,751

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 15- Defined Benefit Pension Plans

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under forms and publications.

Funding Policy - 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$225,304, \$250,774 and \$243,092 respectively; 48.99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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, 2008, 2007, and 2006 were \$1,013,377, \$997,889, and \$983,815 respectively; 86.32 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$17,087 made by the School District and \$32,056 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 Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 16 - Postemployment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$48,541.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$151,355, \$96,578, and \$95,247 respectively; 48.99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$16,234, \$15,966, and \$17,921 respectively; 48.99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$77,952, \$76,761, and \$75,678 respectively; 86.32 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 17 - 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. Classified employees receive one-fourth of the first 160 days of accrued but unused sick leave and one-third of any accrued but unused sick leave over 160 days to the maximum of 260 days. Certified employees are allowed one-fourth of accrued but unused sick leave, up to a severance pay maximum of sixty-six days.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 18 - 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.

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-Aside Reserve Balance as of June 30, 2007	\$0	(\$69,593)
Current Year Set-aside Requirement	329,960	329,960
Current Year Offsets	(270,243)	0
Qualifying Disbursements	(692,372)	(347,228)
Total	(\$632,655)	(\$86,861)
Set-aside Balance Carried		
Forward to Future Fiscal Years	\$0	(\$86,861)
Set-aside Reserve Balance as of June 30, 2008	\$0	\$0

The School District had current year offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the textbooks and capital improvements set-asides. The extra amount for textbooks may be used to reduce the set-aside requirement of future years. Although the School District had current year offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

Shelby City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 19 - 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, 2008.

B. Litigation

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

Note 20 – Interfund Balances and Transfers

A. Interfund Balances

	Interfund Receivable
Interfund Payable	General
Other Governmental Funds:	
District Managed Activity	\$17,581
Title I	10
<i>Total Other Governmental Funds</i>	<i>\$17,591</i>

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.

B. Interfund Transfers

During 2008 the School District eliminated an interfund receivable in the general fund which was due to advances made in a prior fiscal year. By resolution, the Board of Education made the advances to Title V and Miscellaneous Federal Grant funds permanent transfers in the amount of \$10,458 and \$31,898, respectively.

A transfer of \$38,706 was made from the miscellaneous federal grants fund to the general fund to reimburse the general fund for flood related expenditures.

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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education:</i>						
Food Donation Program	N/A	10.550		\$58,338		\$58,338
Child Nutrition Cluster:						
School Breakfast Program	2007	10.553	\$7,195		\$7,195	
	2008		59,162		59,162	
Total School Breakfast Program			66,357		66,357	
National School Lunch Program	2007	10.555	35,533		35,533	
	2008		279,868		279,868	
Total National School Lunch Program			315,401		315,401	
Total Child Nutrition Cluster			381,758		381,758	
Total U.S. Department of Agriculture			381,758	58,338	381,758	58,338
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	2007	84.010			12,620	
	2008		245,360		227,736	
Total Title I Grants to Local Educational Agencies			245,360		240,356	
Special Education - Grants to States	2008	84.027	519,219		459,524	
Safe and Drug-Free Schools and Communities - State Grants	2007	84.186	5,766		7,646	
	2008		4,052		3,292	
Total Safe and Drug-Free Schools and Communities - State Grants			9,818		10,938	
State Grants for Innovative Programs	2007	84.298	5,197		7,341	
	2008		1,795		675	
Total State Grants for Innovative Programs			6,992		8,016	
Education Technology State Grants	2007	84.318	505		89	
	2008		562		1,017	
Total Education Technology State Grants			1,067		1,106	
Improving Teacher Quality State Grants	2007	84.367	10,522		2,153	
	2008		85,686		89,065	
Total Improving Teacher Quality State Grants			96,208		91,218	
Total U.S. Department of Education			878,664		811,158	
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
<i>Passed through the Ohio Department of Homeland Security:</i>						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	N/A	97.036	181,954		42,213	
Totals			\$1,442,376	\$58,338	\$1,235,129	\$58,338

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, 2008**

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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 13, 2009, wherein we 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. Additionally, we noted the District restated its July 1, 2007 governmental activities, business-type activities and food service fund net assets and, did not account for the impairment of certain governmental activities, business-type activities and food service fund capital assets in accordance with the requirements of Governmental Accounting Standards Board Statement 42. 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 a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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 findings 2008-001 and 2008-002 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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. We believe finding 2008-001 is also a material weakness.

We also noted a certain internal control matter that we reported to the District's management in a separate letter dated February 13, 2009.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the District's management in a separate letter dated February 13, 2009.

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, and Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 13, 2009



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, 2008. 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, the District 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, 2008.

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

February 13, 2009

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008

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 84.010 – Title I Grants to Local Educational Agencies
<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 2008-001

Material Weakness

Capital Assets

In August 2007, the City of Shelby experienced a catastrophic flood which caused severe damage to several of the District's buildings and other capital assets within. Because of inadequate capital asset accounting records at the time of the flood, the District was unable to account for the impairment of its damaged capital assets in accordance with Governmental Accounting Standards Board (GASB) Statement 42. Additionally, because of the inadequate prior capital asset records, we were unable to determine the value of assets damaged by the flood and therefore unable to obtain sufficient evidence regarding the restated July 1, 2007 governmental activity, business-type activities and food service fund's net asset balances.

In March 2008, the District had an independent capital asset appraisal performed which supports the reported June 30, 2008 balance. The District should adopt policies and procedures to ensure its capital asset accounting records are continually maintained. This will allow them to properly account for its capital asset balances and ensure all applicable accounting standards are followed.

Officials' Response: We agree with the audit team that the June 30, 2008 balance is correct, and that we will proceed from that basis to properly account for capital asset balances in fiscal year 2009.

FINDING NUMBER 2008-002

Significant Deficiency

Financial Statement Errors

The following items were noted during financial statement testing:

- Other Governmental Funds' intergovernmental receivables were understated \$32,127 due to a Federal Emergency Management Agency Fund receipt relating to fiscal year 2008 being received by the District in August 2008, but not recorded as a receivable. This amount was not significant and therefore was reported to management as an unadjusted difference.
- General Fund, Other Governmental Funds' and Food Service Fund accrued wages were understated \$30,446, \$11,058 and \$13,561, respectively, due to certain employee health insurance payments being excluded from the liability calculation. These amounts were not significant and therefore were reported to management as unadjusted differences.
- Governmental Activities and the Self-Insurance Fund claims payable was understated \$169,249 due to the liability being calculated based on the July and August 2008 lag report instead of the outstanding claims report provided by the third party administrator.
- Private Purpose Trust Fund equity in pooled cash and cash equivalents was understated \$20,177, investment in common stock was understated \$9,312, and investments in segregated accounts were overstated \$29,489. These amounts were reclassified on the financial statements.

FINDING NUMBER 2008-002 (Continued)

Significant Deficiency (Continued)

- Numerous funds with program revenues did not have the revenue correctly allocated among the expense line items. These amounts were reclassified on the financial statements.
- General Fund final budgeted receipts were understated by \$598,580 due to a June 30, 2008 estimated receipt amendment being excluded from the budgetary basis statement. This amount was not significant and therefore was reported to management as an unadjusted difference.

Management should review the draft GAAP journal entries and financial statements to help ensure they are supported by sufficient and accurate documentation, free of obvious errors and omissions, and consistent with their financial expectations. These procedures should help avoid financial statement errors and help ensure more accurate financial reporting.

Officials' Response: Management is aware of these issues and will work as closely as possible with the GAAP audit team to develop a report that is accurate and consistent.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Material Weakness – Capital Assets; The District did not maintain sufficient capital asset records which resulted in a qualification of the auditor’s opinion.	No	Partially Corrected; The District had a capital asset appraisal completed during 2008. However, lack of prior year balances inhibited the District from accounting for the impairment of flood damaged capital assets. Refer to Finding Number 2008-001.
2007-002	Significant Deficiency – Cash Reconciliation; The District was unable to reconcile its bank balance to its book balance from July 2006 through April 2007.	Yes	Finding No Longer Valid
2007-003	Significant Deficiency – GAAP Issues; Five GAAP financial statement errors were noted in the prior audit of which two were significant and were adjusted to the financial statements.	No	See Finding Number 2008-002.



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 26, 2009**