



Dave Yost • Auditor of State



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 18, 2014

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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The management's discussion and analysis of the Shelby City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the 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 District's financial performance.

**Financial Highlights**

Key financial highlights for 2013 are as follows:

- In total, net position of governmental activities increased \$399,569 which represents a 2.07% increase from 2012.
- General revenues accounted for \$17,492,766 in revenue or 78.19% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,878,339 or 21.81% of total revenues of \$22,371,105.
- The District had \$21,971,536 in expenses related to governmental activities; only \$4,878,339 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,492,766 were adequate to provide for these programs.
- The District's major funds are the general fund, the building fund, and the classroom facilities fund. The general fund had \$17,474,586 in revenues and \$17,499,881 in expenditures. During fiscal year 2013, the general fund's fund balance decreased \$25,295 from \$4,610,347 to \$4,585,052.
- The building fund had \$2,652 in revenues and \$3,791,712 in expenditures and other financing uses. During fiscal year 2013, the building fund's fund balance decreased \$3,789,060 from \$4,852,943 to \$1,063,883.
- The classroom facilities fund had \$3,135,027 in revenues and other financing sources and \$11,084,691 in expenditures. During fiscal year 2013, the classroom facilities fund's fund balance decreased \$7,949,664 from \$12,312,737 to \$4,363,073.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, the building fund and the classroom facilities fund are the only major funds.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

**Reporting the District as a Whole**

***Statement of Net Position and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all (non-fiduciary) assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net position and statement of activities can be found on pages 15-16 of this report.

**Reporting the District's Most Significant Fund**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major funds include the general fund, the building fund and the classroom facilities fund.

***Governmental Funds***

Most of the 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 financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps to 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 Position and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 22 and 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-59 of this report.

**The District as a Whole**

The table below provides a summary of the District's net position for 2013 and 2012.

<b>Net Position</b>		
	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b><u>Assets</u></b>		
Current and other assets	\$ 21,948,052	\$ 36,965,094
Capital assets, net	25,689,945	10,634,284
Total assets	47,637,997	47,599,378
<b><u>Liabilities</u></b>		
Current liabilities	3,836,312	4,204,733
Long-term liabilities	19,092,226	19,378,499
Total liabilities	22,928,538	23,583,232
<b><u>Deferred inflows</u></b>		
Property taxes levied for the next fiscal year	5,028,142	4,734,398
Total deferred inflows	5,028,142	4,734,398
<b><u>Net Position</u></b>		
Net investment in capital assets	12,939,475	9,212,112
Restricted	2,874,735	6,397,959
Unrestricted	3,867,107	3,671,677
Total net position	\$ 19,681,317	\$ 19,281,748

Net position increased \$399,569 or 2.07%, mainly due to the increase in property tax revenues.

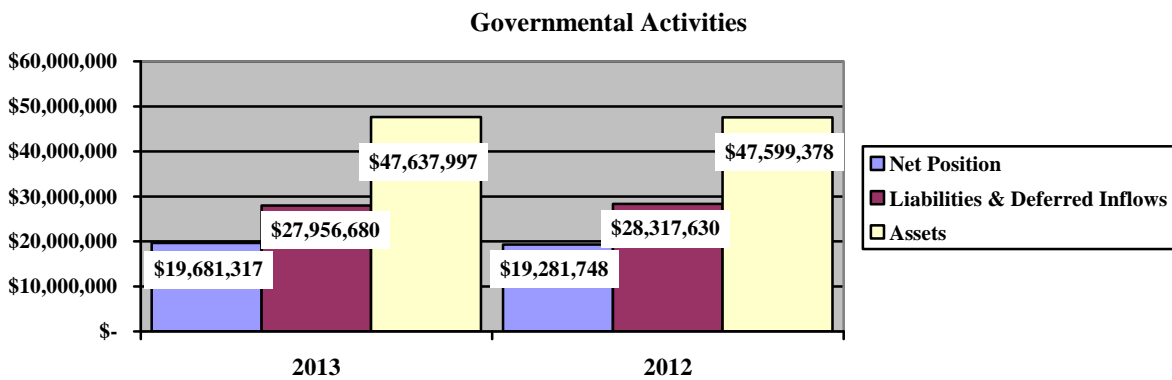
**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

At year end, capital assets represented 53.93% of total assets. Capital assets include land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. Net investment in capital assets at June 30, 2013, was \$12,939,475. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$2,874,735, represents resources that are subject to external restriction on how they may be used.

The graph below shows the District's assets, liabilities and deferred inflows, and net position at June 30, 2013 and 2012:



**Governmental Activities**

Net position of the District's governmental activities increased \$399,569. Total governmental expenses of \$21,971,536 were offset by program revenues of \$4,878,339 and general revenues of \$17,492,766. Program revenues supported 22.20% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 78.01% of total governmental revenue. Real estate property is reappraised every six years.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

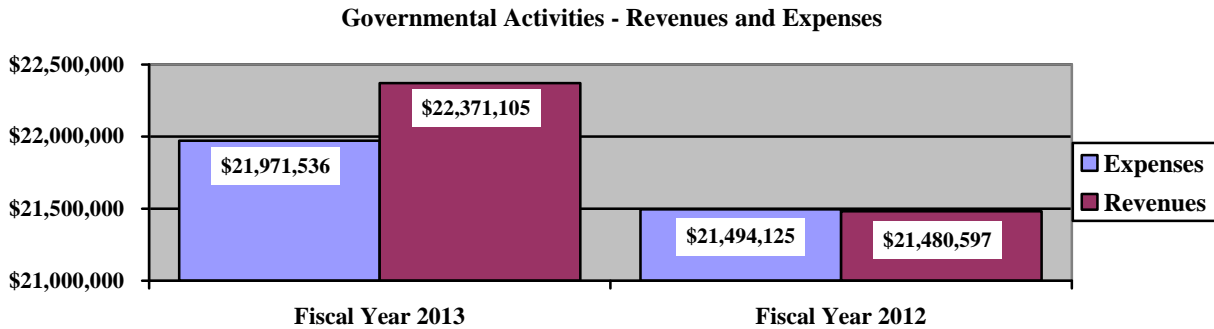
The table below shows the change in net position for fiscal year 2013 and 2012.

	<b>Change in Net Position</b>	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,321,642	\$ 1,199,516
Operating grants and contributions	3,106,593	3,190,453
Capital grants and contributions	450,104	118,260
General revenues:		
Property taxes	6,553,241	5,512,035
Income taxes	2,482,903	2,654,725
Grants and entitlements not restricted	8,416,107	8,748,525
Investment earnings	20,680	20,549
Miscellaneous	19,835	36,534
Total revenues	<u>22,371,105</u>	<u>21,480,597</u>
	<b>Change in Net Position</b>	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
<b>Expenses</b>		
Program expenses:		
Instruction:		
Regular	8,972,464	8,573,354
Special	2,281,643	2,320,074
Vocational	150,635	36,725
Support services:		
Pupil	844,960	868,421
Instructional staff	1,321,543	1,422,285
Board of Education	88,927	55,860
Administration	1,329,090	1,404,447
Fiscal	726,993	689,505
Business	-	5,143
Operations and maintenance	1,978,569	1,833,888
Pupil transportation	937,402	981,268
Central	108,430	344,701
Operation of non-instructional services:		
Other non-instructional services	138,449	149,346
Food service operations	1,019,946	1,043,247
Extracurricular activities	642,939	676,519
Interest and fiscal charges	<u>1,429,546</u>	<u>1,089,342</u>
Total expenses	<u>21,971,536</u>	<u>21,494,125</u>
Changes in net position	399,569	(13,528)
Net position at beginning of year	<u>19,281,748</u>	<u>19,295,276</u>
Net position at end of year	<u>\$ 19,681,317</u>	<u>\$ 19,281,748</u>

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2013 and 2012.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program expenses:				
Instruction:				
Regular	\$ 8,972,464	\$ 7,918,046	\$ 8,573,354	\$ 6,933,153
Special	2,281,643	1,218,593	2,320,074	1,901,889
Vocational	150,635	108,144	36,725	(5,766)
Support services:				
Pupil	844,960	740,671	868,421	759,667
Instructional staff	1,321,543	693,572	1,422,285	964,920
Board of education	88,927	88,927	55,860	55,860
Administration	1,329,090	1,315,806	1,404,447	1,397,933
Fiscal	726,993	711,758	689,505	689,246
Business	-	-	5,143	5,143
Operations and maintenance	1,978,569	1,751,031	1,833,888	1,778,776
Pupil transportation	937,402	847,209	981,268	907,400
Central	108,430	108,430	344,701	344,701
Operation of non-instructional services:				
Other non-instructional services	138,449	3,428	149,346	(2,881)
Food service operations	1,019,946	(25,470)	1,043,247	(19,399)
Extracurricular activities	642,939	517,521	676,519	535,118
Interest and fiscal charges	<u>1,429,546</u>	<u>1,095,531</u>	<u>1,089,342</u>	<u>740,136</u>
<b>Total expenses</b>	<b><u>\$ 21,971,536</u></b>	<b><u>\$ 17,093,197</u></b>	<b><u>\$ 21,494,125</u></b>	<b><u>\$ 16,985,896</u></b>

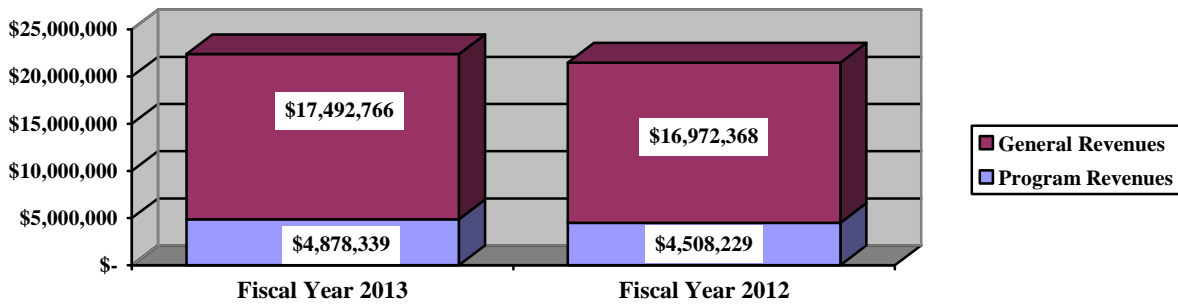
**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The dependence upon tax and other general revenues for governmental activities is apparent, as 81.06% of instruction activities in fiscal year 2013 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.79% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2013 and 2012.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$11,658,375, which is lower than last year's total of \$23,301,505. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	Increase (Decrease)	Percentage <u>Change</u>
General	\$ 4,585,052	\$ 4,610,347	\$ (25,295)	(0.55) %
Building	1,063,883	4,852,943	(3,789,060)	(78.08) %
Classroom facilities	4,363,073	12,312,737	(7,949,664)	(64.56) %
Other governmental	<u>1,646,367</u>	<u>1,525,478</u>	<u>120,889</u>	7.92 %
Total	<u>\$ 11,658,375</u>	<u>\$ 23,301,505</u>	<u>\$ (11,643,130)</u>	(49.97) %

**General Fund**

The District's general fund balance decreased \$25,295. Revenues of the general fund increased slightly during the fiscal year primarily due to an increase in tax revenue and other revenue. Tax revenue increased 11.58% due to the timing of collections by the Richland County auditor. Other revenue increased 20.90% due to an increase in tuition revenue.

Overall expenses remained comparable to the prior fiscal year.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2013 <u>Amount</u>	2012 <u>Amount</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 7,737,994	\$ 6,934,704	11.58 %
Earnings on investments	9,215	8,344	10.44 %
Intergovernmental	8,910,254	9,253,947	(3.71) %
Other revenues	<u>817,123</u>	<u>675,878</u>	20.90 %
Total	<u>\$ 17,474,586</u>	<u>\$ 16,872,873</u>	3.57 %
<b><u>Expenditures</u></b>			
Instruction	\$ 10,443,110	\$ 10,329,381	1.10 %
Support services	6,438,369	6,939,924	(7.23) %
Extracurricular activities	446,466	465,599	(4.11) %
Operation of non-instructional services	6,638	10,969	(39.48) %
Facilities acquisition and construction	-	17,900	(100.00) %
Debt service	<u>165,298</u>	<u>170,654</u>	(3.14) %
Total	<u>\$ 17,499,881</u>	<u>\$ 17,934,427</u>	(2.42) %

***Building Fund***

The building fund had \$2,652 in revenues and \$3,791,712 in expenditures and other financing uses. During fiscal year 2013, the building fund's fund balance decreased \$3,789,060 from \$4,852,943 to \$1,063,883 as a result of the District's ongoing Ohio School Facilities Commission construction project.

***Classroom Facilities Fund***

The classroom facilities fund had \$3,135,027 in revenues and other financing sources and \$11,084,691 in expenditures. During fiscal year 2013, the classroom facilities fund's fund balance decreased \$7,949,664 from \$12,312,737 to \$4,363,073 as a result of the District's ongoing Ohio School Facilities Commission construction project.

***General Fund Budgeting Highlights***

The 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 2013, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources and final budgeted revenues and other financing sources were both \$16,978,492. Actual revenues and other sources for fiscal year 2013 were \$16,880,252. This represents a \$77,523 decrease under final budgeted revenues. This decrease is primarily due to a decrease in income tax and intergovernmental state revenues.

General fund original appropriations of \$18,241,828 were decreased to \$18,042,202 in the final appropriations. The actual budget basis expenditures for fiscal year 2013 totaled \$17,812,883, which were \$229,319 less than final budgeted appropriations.



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2013, the District had \$25,689,945 invested in land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. This entire amount is reported in governmental activities.

The following table shows fiscal year 2013 balances compared to 2012.

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2013	2012
Land	\$ 797,675	\$ 797,675
Construction in progress	22,668,257	7,461,901
Land improvements	111,831	149,676
Buildings and building improvements	1,357,111	1,436,850
Furniture, fixtures and equipment	339,842	365,089
Vehicles	283,491	289,856
Textbooks	131,738	133,237
Total	\$ 25,689,945	\$ 10,634,284

The overall increase in capital assets of \$15,055,661 is due to capital outlays amounting to \$15,287,316 exceeding depreciation expense of \$231,655.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2013, the District had \$9,067 in a capital lease obligation and \$16,828,413 in series 2010A and 2010B outstanding. The series 2010A bonds consist of \$860,000 in current interest bonds and \$468,413 in capital appreciation bonds and accreted interest. The series 2010B general obligation current interest bonds had a balance of \$15,500,000 at June 30, 2013. Of the District's total obligations of \$16,837,480, \$199,067 is due within one year and \$16,638,413 is due in more than one year.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2013.

**Outstanding Long-Term Debt at June 30, 2013**

	<u>Governmental Activities 2013</u>	<u>Governmental Activities 2012</u>
Energy conservation bonds	\$ -	\$ 105,000
Series 2010A general obligation bonds	1,328,413	1,435,811
Series 2010B general obligation bonds	15,500,000	15,500,000
Capital lease obligation	<u>9,067</u>	<u>61,007</u>
Total	<u>\$ 16,837,480</u>	<u>\$ 17,101,818</u>

At June 30, 2013, the District's overall legal debt margin was \$2,365,771 with an unvoted debt margin of \$204,070.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**Current Issues Affecting Financial Condition**

During fiscal year 2008, the District was released from fiscal emergency. In the spring of 2012, negotiations on a new contract for certified was completed. The certified staff received a one year contract with no increases in 2013. The classified contract was re-negotiated in the summer of 2012 for the period June 2012 – June 2014 with no increase to the base salary in either year.

In August 2010, the District passed a 4 mill, 35 year bond issue and a 1 mill Continuing Permanent Improvement Levy for the local share of an Ohio School Facilities Commission (OSFC) construction project. The project will provide a new high school, and allow students from the two buildings currently located in the flood plain to be redistributed to existing buildings within the District. The total project cost is approximately \$28 million with approximately \$11 million provided by OSFC.

A five year 4.5 mill emergency levy was renewed in November 2011.

**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 District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Elizabeth Anatra, Treasurer, 25 High School Avenue, Shelby, Ohio 44875 or via email at [anatra.elizabethm@shelbyk12.org](mailto:anatra.elizabethm@shelbyk12.org).

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 12,621,756
Cash in segregated accounts . . . . .	370,736
Receivables:	
Property taxes . . . . .	6,538,131
Income taxes. . . . .	1,051,012
Accounts. . . . .	12,776
Accrued interest . . . . .	628
Intergovernmental . . . . .	1,131,796
Prepayments . . . . .	104,128
Materials and supplies inventory. . . . .	116,723
Due from an external party . . . . .	366
Capital assets:	
Land and construction in progress . . . . .	23,465,932
Depreciable capital assets, net. . . . .	2,224,013
Capital assets, net . . . . .	<u>25,689,945</u>
Total assets. . . . .	<u>47,637,997</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	148,277
Contracts payable. . . . .	1,205,133
Retainage payable . . . . .	363,269
Accrued wages and benefits . . . . .	1,525,843
Pension obligation payable. . . . .	327,095
Intergovernmental payable . . . . .	100,116
Accrued interest payable . . . . .	166,579
Long-term liabilities:	
Due within one year. . . . .	609,372
Due in more than one year. . . . .	18,482,854
Total liabilities . . . . .	<u>22,928,538</u>
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	5,028,142
Total deferred inflows of resources . . . . .	<u>5,028,142</u>
<b>Net position:</b>	
Net investment in capital assets . . . . .	12,939,475
Restricted for:	
Capital projects . . . . .	1,910,623
Classroom facilities maintenance . . . . .	397,047
Debt service. . . . .	433,352
Locally funded programs . . . . .	21,638
State funded programs. . . . .	9,406
Federally funded programs . . . . .	36,022
Student activities . . . . .	54,296
Other purposes . . . . .	12,351
Unrestricted. . . . .	3,867,107
Total net position. . . . .	<u>\$ 19,681,317</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 8,972,464	\$ 582,833	\$ 402,272	\$ 69,313	\$ (7,918,046)
Special . . . . .	2,281,643	-	1,063,050	-	(1,218,593)
Vocational . . . . .	150,635	-	42,491	-	(108,144)
Support services:					
Pupil . . . . .	844,960	80,450	23,839	-	(740,671)
Instructional staff . . . . .	1,321,543	-	451,339	176,632	(693,572)
Board of education . . . . .	88,927	-	-	-	(88,927)
Administration . . . . .	1,329,090	10,247	3,037	-	(1,315,806)
Fiscal . . . . .	726,993	-	-	15,235	(711,758)
Operations and maintenance . . . . .	1,978,569	53,881	-	173,657	(1,751,031)
Pupil transportation . . . . .	937,402	34,053	40,873	15,267	(847,209)
Central . . . . .	108,430	-	-	-	(108,430)
Operation of non-instructional services:					
Other non-instructional services . . . . .	138,449	5,005	130,016	-	(3,428)
Food service operations . . . . .	1,019,946	434,744	610,672	-	25,470
Extracurricular activities . . . . .	642,939	120,429	4,989	-	(517,521)
Interest and fiscal charges . . . . .	1,429,546	-	334,015	-	(1,095,531)
<b>Total governmental activities . . . . .</b>	<b>\$ 21,971,536</b>	<b>\$ 1,321,642</b>	<b>\$ 3,106,593</b>	<b>\$ 450,104</b>	<b>(17,093,197)</b>

**General revenues:**

Property taxes levied for:	
General purposes . . . . .	5,274,797
Special revenue . . . . .	19,742
Debt service . . . . .	929,056
Capital outlay . . . . .	329,646
Income taxes levied for:	
General purposes . . . . .	2,482,903
Grants and entitlements not restricted to specific programs . . . . .	8,416,107
Investment earnings . . . . .	20,680
Miscellaneous . . . . .	19,835
<b>Total general revenues . . . . .</b>	<b>17,492,766</b>
Change in net position . . . . .	399,569
<b>Net position at beginning of year . . . . .</b>	<b>19,281,748</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 19,681,317</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 4,521,521	\$ 1,210,870	\$ 5,116,656	\$ 1,760,358	\$ 12,609,405
Cash in segregated accounts . . . . .	11,805	64,871	294,060	-	370,736
Receivables:					
Property taxes . . . . .	5,234,312	-	-	1,303,819	6,538,131
Income taxes . . . . .	1,051,012	-	-	-	1,051,012
Accounts . . . . .	7,919	-	-	4,857	12,776
Intergovernmental . . . . .	227,454	-	782,058	122,284	1,131,796
Accrued interest . . . . .	628	-	-	-	628
Interfund loans . . . . .	17,591	-	-	-	17,591
Prepayments . . . . .	94,235	2,137	7,756	-	104,128
Materials and supplies inventory . . . . .	108,400	-	-	8,323	116,723
Due from other funds . . . . .	3,694	-	-	1,340	5,034
Due from an external party . . . . .	366	-	-	-	366
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	12,351	-	-	-	12,351
<b>Total assets . . . . .</b>	<b>\$ 11,291,288</b>	<b>\$ 1,277,878</b>	<b>\$ 6,200,530</b>	<b>\$ 3,200,981</b>	<b>\$ 21,970,677</b>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 88,869	\$ 71	\$ 305	\$ 59,032	\$ 148,277
Contracts payable . . . . .	-	148,432	887,574	169,127	1,205,133
Retainage payable . . . . .	-	65,492	297,777	-	363,269
Accrued wages and benefits . . . . .	1,359,577	-	-	166,266	1,525,843
Compensated absences payable . . . . .	190,245	-	-	7,007	197,252
Retirement incentive payable . . . . .	43,665	-	-	-	43,665
Interfund loans payable . . . . .	-	-	-	17,591	17,591
Intergovernmental payable . . . . .	93,100	-	-	7,016	100,116
Pension obligation payable . . . . .	274,015	-	-	53,080	327,095
Due to other funds . . . . .	3,059	-	-	1,975	5,034
<b>Total liabilities . . . . .</b>	<b>2,052,530</b>	<b>213,995</b>	<b>1,185,656</b>	<b>481,094</b>	<b>3,933,275</b>
<b>Deferred inflows of resources:</b>					
Property taxes levied for the next fiscal year . . . . .	4,025,441	-	-	1,002,701	5,028,142
Delinquent property tax revenue not available . . . . .	284,312	-	-	70,819	355,131
Income tax revenue not available . . . . .	166,562	-	-	-	166,562
Intergovernmental revenue not available . . . . .	177,391	-	651,801	-	829,192
<b>Total deferred inflows of resources . . . . .</b>	<b>4,653,706</b>	<b>-</b>	<b>651,801</b>	<b>1,073,520</b>	<b>6,379,027</b>
<b>Fund balances:</b>					
Nonspendable:					
Materials and supplies inventory . . . . .	108,400	-	-	8,323	116,723
Prepays . . . . .	94,235	2,137	7,756	-	104,128
Restricted:					
Debt service . . . . .	-	-	-	712,403	712,403
Capital improvements . . . . .	-	1,061,746	4,355,317	407,191	5,824,254
Classroom facilities maintenance . . . . .	-	-	-	390,844	390,844
Non-public schools . . . . .	-	-	-	1,700	1,700
Targeted academic assistance . . . . .	-	-	-	14,412	14,412
Other purposes . . . . .	-	-	-	56,641	56,641
Extracurricular . . . . .	-	-	-	54,296	54,296
School bus purchases . . . . .	12,351	-	-	-	12,351
Committed:					
Student instruction . . . . .	6,160	-	-	-	6,160
Student and staff support . . . . .	243	-	-	-	243
Other purposes . . . . .	-	-	-	4,793	4,793
Assigned:					
Student instruction . . . . .	13,262	-	-	-	13,262
Student and staff support . . . . .	208,962	-	-	-	208,962
Employee benefits . . . . .	709,864	-	-	-	709,864
School supplies . . . . .	73,332	-	-	-	73,332
Other purposes . . . . .	511	-	-	-	511
Unassigned (deficit) . . . . .	3,357,732	-	-	(4,236)	3,353,496
<b>Total fund balances . . . . .</b>	<b>4,585,052</b>	<b>1,063,883</b>	<b>4,363,073</b>	<b>1,646,367</b>	<b>11,658,375</b>
<b>Total liabilities, deferred inflows and fund balances . . . . .</b>	<b>\$ 11,291,288</b>	<b>\$ 1,277,878</b>	<b>\$ 6,200,530</b>	<b>\$ 3,200,981</b>	<b>\$ 21,970,677</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013**

<b>Total governmental fund balances</b>		\$	11,658,375
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			25,689,945
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	355,131	
Income taxes receivable		166,562	
Intergovernmental receivable		829,192	
Total		1,350,885	1,350,885
Unamortized premiums on bonds issued are not recognized in the funds.			(665,401)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(166,579)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(16,828,413)	
Capital lease obligations		(9,067)	
Compensated absences		(1,348,428)	
Total		(18,185,908)	(18,185,908)
<b>Net position of governmental activities</b>		\$	19,681,317

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General	Building	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Property taxes . . . . .	\$ 5,255,091	\$ -	\$ -	\$ 1,268,237	\$ 6,523,328
Income taxes . . . . .	2,482,903	-	-	-	2,482,903
Transportation fees . . . . .	32,143	-	-	-	32,143
Tuition . . . . .	406,504	-	-	-	406,504
Earnings on investments . . . . .	9,215	2,652	7,848	1,034	20,749
Charges for services . . . . .	-	-	-	434,744	434,744
Extracurricular . . . . .	107,548	-	-	120,429	227,977
Classroom materials and fees . . . . .	47,366	-	-	-	47,366
Rental income . . . . .	53,881	-	-	1,050	54,931
Contributions and donations . . . . .	4,382	-	-	433,066	437,448
Other local revenues . . . . .	165,299	-	-	43,701	209,000
Intergovernmental - state . . . . .	8,885,021	-	3,045,982	384,364	12,315,367
Intergovernmental - federal . . . . .	25,233	-	-	2,153,658	2,178,891
Total revenues . . . . .	<u>17,474,586</u>	<u>2,652</u>	<u>3,053,830</u>	<u>4,840,283</u>	<u>25,371,351</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	8,372,862	-	-	621,279	8,994,141
Special . . . . .	1,911,060	-	-	373,369	2,284,429
Vocational . . . . .	159,188	-	-	-	159,188
Support services:					
Pupil . . . . .	825,800	-	-	-	825,800
Instructional staff . . . . .	787,470	-	-	533,046	1,320,516
Board of education . . . . .	89,259	-	-	-	89,259
Administration . . . . .	1,312,672	-	-	-	1,312,672
Fiscal . . . . .	680,280	-	-	27,942	708,222
Operations and maintenance . . . . .	1,743,698	-	-	83,481	1,827,179
Pupil transportation . . . . .	891,820	-	-	7,339	899,159
Central . . . . .	107,370	-	-	-	107,370
Operation of non-instructional services:					
Other non-instructional services . . . . .	6,638	-	-	165,183	171,821
Food service operations . . . . .	-	-	-	1,024,557	1,024,557
Extracurricular activities . . . . .	446,466	-	-	135,133	581,599
Facilities acquisition and construction . . . . .	-	3,710,515	11,084,691	550,135	15,345,341
Debt service:					
Principal retirement . . . . .	156,940	-	-	180,000	336,940
Interest and fiscal charges . . . . .	8,358	-	-	1,017,930	1,026,288
Total expenditures . . . . .	<u>17,499,881</u>	<u>3,710,515</u>	<u>11,084,691</u>	<u>4,719,394</u>	<u>37,014,481</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(25,295)</u>	<u>(3,707,863)</u>	<u>(8,030,861)</u>	<u>120,889</u>	<u>(11,643,130)</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	81,197	-	81,197
Transfers (out) . . . . .	-	(81,197)	-	-	(81,197)
Total other financing sources (uses) . . . . .	<u>-</u>	<u>(81,197)</u>	<u>81,197</u>	<u>-</u>	<u>-</u>
Net change in fund balances . . . . .	(25,295)	(3,789,060)	(7,949,664)	120,889	(11,643,130)
<b>Fund balances at beginning of year . . . . .</b>	<u>4,610,347</u>	<u>4,852,943</u>	<u>12,312,737</u>	<u>1,525,478</u>	<u>23,301,505</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 4,585,052</u>	<u>\$ 1,063,883</u>	<u>\$ 4,363,073</u>	<u>\$ 1,646,367</u>	<u>\$ 11,658,375</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Net change in fund balances - total governmental funds** \$ (11,643,130)

*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.

Capital asset additions	\$ 15,287,316	
Current year depreciation	<u>(231,655)</u>	
Total		15,055,661

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

Property taxes	29,913	
Intergovernmental	<u>(3,002,325)</u>	
Total		(2,972,412)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:

General Obligation Bonds	180,000	
Energy Conservation Bonds	105,000	
Capital leases	<u>51,940</u>	
Total		336,940

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Decrease in accrued interest payable	1,014	
Accreted interest on capital appreciation bonds	(72,602)	
Removal of unamortization bond issuance costs	(352,249)	
Amortization of bond premiums	<u>20,579</u>	
Total		(403,258)

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

25,768

**Change in net position of governmental activities** **\$ 399,569**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 4,944,000	\$ 4,944,000	\$ 4,926,534	\$ (17,466)
Income taxes . . . . .	2,500,000	2,500,000	2,432,045	(67,955)
Transportation fees . . . . .	30,000	30,000	25,789	(4,211)
Tuition . . . . .	340,000	340,000	406,504	66,504
Earnings on investments . . . . .	10,000	10,000	8,136	(1,864)
Classroom materials and fees . . . . .	11,500	11,500	9,839	(1,661)
Rental income . . . . .	40,000	40,000	53,881	13,881
Contributions and donations . . . . .	500	500	20	(480)
Other local revenues . . . . .	35,000	35,000	20,221	(14,779)
Intergovernmental - state . . . . .	8,963,492	8,963,492	8,885,021	(78,471)
Intergovernmental - federal . . . . .	52,000	52,000	30,568	(21,432)
<b>Total revenues . . . . .</b>	<b>16,926,492</b>	<b>16,926,492</b>	<b>16,798,558</b>	<b>(127,934)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	8,445,775	8,352,788	8,411,009	(58,221)
Special . . . . .	2,053,126	2,030,521	1,999,847	30,674
Vocational . . . . .	196,216	194,056	175,901	18,155
Other . . . . .	2,022	2,000	-	2,000
Support services:				
Pupil . . . . .	779,751	771,166	740,392	30,774
Instructional staff . . . . .	953,861	943,359	937,189	6,170
Board of education . . . . .	66,352	65,621	95,088	(29,467)
Administration . . . . .	1,453,785	1,437,779	1,407,688	30,091
Fiscal . . . . .	647,664	640,533	674,079	(33,546)
Operations and maintenance . . . . .	1,844,625	1,824,316	1,734,625	89,691
Pupil transportation . . . . .	1,030,739	1,019,391	970,776	48,615
Central . . . . .	147,120	145,500	107,534	37,966
Extracurricular activities . . . . .	506,291	500,717	448,400	52,317
Facilities acquisition and construction . . . . .	4,146	4,100	-	4,100
Debt service:				
Principal . . . . .	105,000	105,000	105,000	-
Interest and fiscal charges . . . . .	5,355	5,355	5,355	-
<b>Total expenditures . . . . .</b>	<b>18,241,828</b>	<b>18,042,202</b>	<b>17,812,883</b>	<b>229,319</b>
Excess of expenditures over revenues . . . . .	(1,315,336)	(1,115,710)	(1,014,325)	101,385
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	50,000	50,000	102,011	52,011
Sale of capital assets . . . . .	2,000	2,000	400	(1,600)
<b>Total other financing sources (uses) . . . . .</b>	<b>52,000</b>	<b>52,000</b>	<b>102,411</b>	<b>50,411</b>
Net change in fund balance . . . . .	(1,263,336)	(1,063,710)	(911,914)	151,796
<b>Fund balance at beginning of year . . . . .</b>	<b>4,237,096</b>	<b>4,237,096</b>	<b>4,237,096</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>148,734</b>	<b>148,734</b>	<b>148,734</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 3,122,494</b>	<b>\$ 3,322,120</b>	<b>\$ 3,473,916</b>	<b>\$ 151,796</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2013**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents . . . . .	\$ 576,610	\$ 165,002
Investments in segregated accounts. . . . .	392,984	-
Investments in common stock. . . . .	19,902	-
	989,496	-
Total assets. . . . .	989,496	\$ 165,002
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 1,746
Due to an external party. . . . .	-	366
Due to students . . . . .	-	162,890
	-	162,890
Total liabilities . . . . .	-	\$ 165,002
<b>Net position:</b>		
Held in trust for scholarships . . . . .	989,496	
Total net position. . . . .	\$ 989,496	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 3,520
Gifts and contributions . . . . .	21,109
Total additions . . . . .	24,629
 <b>Deductions:</b>	
Scholarships awarded . . . . .	32,834
Change in net position . . . . .	(8,205)
<b>Net position at beginning of year . . . . .</b>	<b>997,701</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 989,496</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

Shelby City School District (the "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 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 District's three elementary schools, one middle school and one high school staffed by 114 classified employees and 136 certified full-time teaching personnel who provide services to 2,095 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below:

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**A. Reporting Entity (Continued)**

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Pioneer Career and Technology Center (PCTC)

The Pioneer Career and Technology Center (a vocational school district), is a distinct political subdivision of the State of Ohio. PCTC is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, and possesses its own budgeting and taxing authority. To obtain financial information write to the Pioneer Career and Technology Center, Linda Schumacher, Treasurer at 27 Ryan Road, Shelby, Ohio 44875-0309.

Metropolitan Educational Council (MEC)

The District participates in the MEC purchasing pool, which allows the 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 Educational Council, Sue Ward, Fiscal Officer, 2100 Citygate Drive, Columbus, OH 43219.

Heartland Council of Governments/North Central Ohio Computer Cooperative (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 a 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. 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.

*INSURANCE PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (the "GRP") is an insurance purchasing pool.

The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**A. Reporting Entity (Continued)**

Wyandot-Crawford Health Benefit Plan

The Wyandot-Crawford Health Benefit Plan (the "Plan") is a public entity shared risk pool consisting of seven school districts. The District joined the Plan February 1, 2010. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c) (9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to employees of the participating school districts. Each participating school district's superintendent is appointed to the Board of Directors which advises the Trustee, Huntington Trust Company, N.A., concerning aspects of the administration of the Plan.

Each school district decides which benefit program offered by the Plan will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Kathleen Chapin, Huntington National Bank, PO Box 1558, Columbus, OH 43216.

The District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

**B. Fund Accounting**

The 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 and deferred outflows of resources 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Fund - The building fund is used to account for and report resources that are restricted to expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the replacement or updating of equipment essential for the instruction of students in job skills. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Classroom facilities fund - The classroom facilities capital projects fund is used to account for and report financial resources that are restricted to expenditures related to the District's construction project with the Ohio School Facilities Commission.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**B. Fund Accounting (Continued)**

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and capital assets other than those accounted for in the building and classroom facilities funds, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*PROPRIETARY FUNDS*

The proprietary fund is used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the District are included on the statement of net position.



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**C. Basis of Presentation and Measurement Focus (Continued)**

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**D. Basis of Accounting (Continued)**

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, income taxes, interest, tuition, grants, student fees and rentals.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**E. Budgets (Continued)**

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Richland County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of estimated resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for the general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

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

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**E. Budgets (Continued)**

Lapsing of Appropriations:

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

**F. Cash and Cash Equivalents**

To improve cash management, cash received by the 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 District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2013, investments were limited to non-negotiable certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$9,215, which includes \$3,573 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with gifts of stock to its private-purpose trust fund. No public funds were used to acquire the stock. The amount of common stock available for expenditure is reported in net position available in trust for scholarships on the statement of fiduciary net position.

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 District are presented on the financial statements as cash equivalents.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a non-spendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$5,000 for general capital assets. The 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 capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	15 years
Buildings and building improvements	40 years
Furniture, fixtures and equipment	10 years
Vehicles	10 years
Textbooks	5 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net position. Amounts resulting from goods or services provided by agency funds to governmental funds are classified as "due to/from external party".

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2013, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

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

**L. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**L. Fund Balance (Continued)**

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**M. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**M. Prepayments (Continued)**

On the fund financial statements, reported prepayments are equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**N. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes includes monies restricted by State statute for school bus purchases.

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

**O. Unamortized Bond Premium**

Bond premiums are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 11.

**P. Estimates**

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

**Q. Interfund Activity**

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



**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**R. Restricted Assets**

Restricted assets in the general fund represent monies restricted by State Statute for school bus purchases. A schedule of the restricted assets is presented in Note 18.

**S. 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 District did not have either type of transaction during fiscal year 2013.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**A. Change in Accounting Principles (Continued)**

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2013 included the following individual fund deficit:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part-B	\$ 3,173

The general fund is liable for the deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board 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.

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash in Segregated Accounts**

The District has \$358,931 held in an account for retainage and \$11,805 held in an account for employee medical savings. These funds are included below and are reported on the financial statement as "cash in segregated accounts"

**B. Investments in Segregated Accounts**

At fiscal year end, \$392,984 was on deposit with an escrow agent for monies held in relation to the W.H. & Ladye F. Moody Scholarship fund. This amount is included in the total amount of deposits reported below and is reported on the financial statements as "investments in segregated accounts".

**C. Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of all District deposits was \$2,342,452. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$2,037,300 of the District's bank balance of \$2,706,010 was exposed to custodial risk as discussed below, while \$668,710 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Investments**

As of June 30, 2013, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	
STAR Ohio	\$ 11,020,916	\$	11,020,916
Common stock	<u>19,902</u>	<u></u>	<u>-</u>
Total	<u>\$ 11,040,818</u>	<u>\$</u>	<u>11,020,916</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or debt of the District.

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The common stock has been assigned a rating of BBB- by Standard & Poor's and a rating of Baa3 by Moody's.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 11,020,916	99.82
Common stock	<u>19,902</u>	<u>0.18</u>
Total	<u>\$ 11,040,818</u>	<u>100.00</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**E. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,342,452
Investments	11,040,818
Investments in segregated accounts	392,984
Cash in segregated accounts	<u>370,736</u>
Total	<u>\$ 14,146,990</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 12,992,492
Private-purpose trust fund	989,496
Agency funds	<u>165,002</u>
Total	<u>\$ 14,146,990</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the fiscal year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
<u>Transfers to classroom facilities fund from:</u>	
Building fund	<u>\$ 81,197</u>

The purpose of this transfer was to move a portion of the local share of the Ohio School Facilities Commission revenues from the building fund to the classroom facilities fund.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund loans receivable/payable consisted of the following at June 30, 2013, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 17,591</u>

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received.

All interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide statement of net position.

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

**C. Due To/From Other Funds**

The District had the following amounts due to/from other funds at June 30, 2013:

<u>Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General	\$ 3,694	\$ 3,059
Nonmajor governmental	<u>1,340</u>	<u>1,975</u>
Total	<u>\$ 5,034</u>	<u>\$ 5,034</u>

Amounts due to/from other funds represent amounts needed to cover negative cash balances in certain funds and also amounts owed between funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made. Due to/from other fund balances between governmental funds are eliminated for reporting on the government-wide statement of net position.

**D. Due To/From an External Party**

The District had the following amounts due to/from an external party at June 30, 2013:

<u>Fund</u>	<u>Due from external party</u>	<u>Due to external party</u>
General	\$ 366	\$ -
Agency	<u>-</u>	<u>366</u>
Total	<u>\$ 366</u>	<u>\$ 366</u>

Amounts due to/from an external party represent amounts owed between governmental and agency funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20.

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$924,559 in the general fund, \$149,424 in the debt service fund (a nonmajor governmental fund), \$20,172 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$60,703 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$596,002 in the general fund, \$34,391 in the debt service fund (a nonmajor governmental fund), \$88,735 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$13,399 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2013 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 inflows.

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

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 197,993,100	96.72	\$ 196,657,940	96.37
Public utility personal	<u>6,720,050</u>	<u>3.28</u>	<u>7,411,830</u>	<u>3.63</u>
Total	<u>\$ 204,713,150</u>	<u>100.00</u>	<u>\$ 204,069,770</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$55.70		\$55.70	



**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2013 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. 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. A summary of the principal items of receivables reported in the statement of net position follows:

**Governmental activities:**

Property taxes	\$ 6,538,131
Income taxes	1,051,012
Accounts	12,776
Accrued interest	628
Intergovernmental	<u>1,131,796</u>
Total	<u>\$ 8,734,343</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year, with the exception of the Ohio Schools Facilities Commission intergovernmental receivable of \$782,058, which will be collected over the duration of the construction project.

**NOTE 8 - INCOME TAX**

The 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 District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Balance <u>07/01/12</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/13</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 797,675	\$ -	\$ -	\$ 797,675
Construction in progress	7,461,901	15,206,356	-	22,668,257
Total capital assets, not being depreciated	<u>8,259,576</u>	<u>15,206,356</u>	<u>-</u>	<u>23,465,932</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,676,622	-	-	1,676,622
Buildings and building improvements	7,200,975	-	-	7,200,975
Furniture, fixtures and equipment	1,616,250	41,988	-	1,658,238
Vehicles	1,222,162	38,972	-	1,261,134
Textbooks	1,293,610	-	-	1,293,610
Total capital assets, being depreciated	<u>13,009,619</u>	<u>80,960</u>	<u>-</u>	<u>13,090,579</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,526,946)	(37,845)	-	(1,564,791)
Buildings and building improvements	(5,764,125)	(79,739)	-	(5,843,864)
Furniture, fixtures and equipment	(1,251,161)	(67,235)	-	(1,318,396)
Vehicles	(932,306)	(45,337)	-	(977,643)
Textbooks	(1,160,373)	(1,499)	-	(1,161,872)
Total accumulated depreciation	<u>(10,634,911)</u>	<u>(231,655)</u>	<u>-</u>	<u>(10,866,566)</u>
Governmental activities capital assets, net	<u>\$ 10,634,284</u>	<u>\$ 15,055,661</u>	<u>\$ -</u>	<u>\$ 25,689,945</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 62,245
Special	855
Vocational	13,882
<u>Support services:</u>	
Instructional staff	2,484
Operation and maintenance	35,352
Pupil transportation	44,897
Central	1,060
Extracurricular	68,279
Food service operations	2,601
Total depreciation expense	<u>\$ 231,655</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 10 - CAPITAL LEASE OBLIGATION**

In a prior fiscal year, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital leases as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

Capital assets consisting of equipment have been capitalized in the amount of \$222,829 in the statement of Net Position. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2013 was \$125,343, leaving a current book value of \$97,486. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2013 totaled \$51,940 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	<u>\$ 9,158</u>
Total minimum lease payments	9,158
Less: amount representing interest	<u>(91)</u>
Total	<u>\$ 9,067</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2013 consist of the following:

<b>Governmental activities:</b>	<u>Balance Outstanding 07/01/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/13</u>	<u>Amounts Due in One Year</u>
General obligation bonds:					
Series 2010A School Improvement Bonds					
Current interest serial bonds	\$ 1,040,000	\$ -	\$ (180,000)	\$ 860,000	\$ 190,000
Capital appreciation bonds	309,992	-	-	309,992	-
Accreted interest	85,819	72,602	-	158,421	-
Series 2010B Build America Bonds					
Current interest term bonds	<u>15,500,000</u>	<u>-</u>	<u>-</u>	<u>15,500,000</u>	<u>-</u>
Total general obligation bonds	<u>16,935,811</u>	<u>72,602</u>	<u>(180,000)</u>	<u>16,828,413</u>	<u>190,000</u>
Energy conservation bonds	105,000	-	(105,000)	-	-
Capital lease obligation	61,007	-	(51,940)	9,067	9,067
Compensated absences	<u>1,590,701</u>	<u>373,159</u>	<u>(374,515)</u>	<u>1,589,345</u>	<u>410,305</u>
Total long-term obligations	<u>\$ 18,692,519</u>	<u>\$ 445,761</u>	<u>\$ (711,455)</u>	<u>18,426,825</u>	<u>\$ 609,372</u>
				<u>665,401</u>	
				<u>\$ 19,092,226</u>	

Series 2010A School Facilities Improvement Bonds - On November 18, 2010, the District issued \$1,499,992 in general obligation bonds, for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund. The bonds were sold at a premium of \$719,421.

The issue is comprised of both current interest serial bonds, par value \$1,190,000, and capital appreciation bonds par value \$309,992. The interest rates on the current interest serial bonds range from 2.00% - 2.50%. The capital appreciation bonds mature on November 1, 2017 (stated interest rate 17.567%), November 1, 2018 (stated interest rate 17.567%), November 1, 2019 (stated interest rate 17.567%), November 1, 2020 (stated interest rate 17.567%) and November 1, 2021 (stated interest rate 17.567%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,380,000. Total accreted interest of \$158,421 for series 2010 A has been included on the statement of net position at June 30, 2013.

The current interest serial bonds and the capital appreciation bonds are not subject to redemption prior to maturity. Interest payments on the current interest serial bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2021.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the District's future annual debt service requirements to maturity for the Series 2010 B Bonds:

Fiscal Year	Current Interest - Series 2010 A			Capital Appreciation - Series 2010 A		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 190,000	\$ 16,500	\$ 206,500	\$ -	\$ -	\$ -
2015	200,000	12,600	212,600	-	-	-
2016	230,000	8,300	238,300	-	-	-
2017	240,000	3,000	243,000	-	-	-
2018	-	-	-	77,538	172,462	250,000
2019 - 2022	-	-	-	232,454	897,546	1,130,000
<b>Total</b>	<b>\$ 860,000</b>	<b>\$ 40,400</b>	<b>\$ 900,400</b>	<b>\$ 309,992</b>	<b>\$ 1,070,008</b>	<b>\$ 1,380,000</b>

Series 2010B Build America Bond - On November 18, 2010, the District issued \$15,500,000 in general obligation current interest term Build America Bonds (BABs), for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund.

Interest payments on the current interest bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2045. At June 30, 2012, the District had \$4,593,992 of unspent bond proceeds remaining on the Series 2010A and B bond issue.

The BABs mature on November 1, 2025, November 1, 2030, November 1, 2035, November 1, 2040 and November 1, 2045 in the amounts of \$1,390,000, \$2,355,000, \$3,130,000, \$3,855,000 and \$4,770,000, respectively. These BABs bear interest rates ranging from 5.05% to 6.90%. The District receives a direct payment subsidy from the United States Treasury equal to thirty-five percent of the corresponding interest payments due on the BABs. The BABs are subject to optional redemption and extraordinary optional redemption prior to maturity, at the sole discretion of the District, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

The BABs are subject to mandatory sinking fund redemption as follows:

<u>Fiscal Year</u>	<u>Mandatory Sinking Fund Redemption</u>
2023	\$ 310,000
2024	325,000
2025	370,000
2026	385,000
2027	400,000
2028	445,000
2029	470,000
2030	495,000
2031	545,000
2032	575,000
2033	600,000
2034	625,000
2035	650,000
2036	680,000
2037	710,000
2038	740,000
2039	770,000
2040	800,000
2041	835,000
2042	875,000
2043	910,000
2044	950,000
2045	995,000
2046	<u>1,040,000</u>
Total	<u>\$ 15,500,000</u>

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the District's future annual debt service requirements, including mandatory sinking fund deposits, to maturity for the Series 2010B BABs:

Fiscal Year	Current Interest - Series 2010 B		
	Principal	Interest	Total
2014	\$ -	\$ 997,730	\$ 997,730
2015	-	997,730	997,730
2016	-	997,730	997,730
2017	-	997,730	997,730
2018	-	997,730	997,730
2019 - 2023	310,000	4,980,823	5,290,823
2024 - 2028	1,925,000	4,672,342	6,597,342
2029 - 2033	2,685,000	3,987,741	6,672,741
2034 - 2038	3,405,000	3,014,290	6,419,290
2039 - 2043	4,190,000	1,766,077	5,956,077
2044 - 2046	2,985,000	315,157	3,300,157
<b>Total</b>	<b>\$ 15,500,000</b>	<b>\$ 23,725,080</b>	<b>\$ 39,225,080</b>

Energy Conservation Bonds - On June 1, 1998, the 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 were retired from the debt service fund (a nonmajor governmental fund). The interest rate of the bonds is 5.1 percent. During the current fiscal year, the bonds were paid in full.

Capital lease obligations - See Note 10 for detail on the District's capital lease obligation.

Compensated Absences - Compensated absences will be paid from the fund from which the employees' salaries are paid which, for the District, is primarily the general fund.

**Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2013, are a voted debt margin of \$2,365,771 and an unvoted debt margin of \$204,070.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 12 - COMPENSATED ABSENCES**

**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-third of any accrued but unused sick leave 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.

**B. Retirement Incentive**

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education Meeting. In fiscal year 2013, four employees received this incentive. A liability of \$43,665 was recorded on the governmental fund financial statements. This amount is included as a component of compensated absences in the long-term obligations.

**NOTE 13 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 2,500	
Electronic Data Processing Equipment	500	Full
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	-	3,000,000
Employer's Liability	-	3,000,000

Flood insurance is also maintained at maximum available levels through Hartford Insurance Company.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no reductions in coverage from the prior year.



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 13 - RISK MANAGEMENT - (Continued)**

**B. Worker's Compensation**

For fiscal year 2013, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2A). The intent of the GRP is to achieve the benefit of a reduced premium for the 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

**C. Employee Health Benefits**

In February 2010, the District joined the Wyandot Crawford Health Benefit Plan (WCHBP), a public entity risk pool currently operating as a common risk management and insurance program. The WCHBP includes seven school districts. The District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the District to WCHBP. The Agreement for formation of the WCHBP provides that the WCHBP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

**NOTE 14 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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](http://www.ohsers.org), under "Employers/Audit Resources".

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 14 - PENSION PLANS - (Continued)**

**A. School Employees Retirement System (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$343,839, \$333,655 and \$313,128 respectively; 74.24 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

Plan Description - The 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 website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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.

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.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 14 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,023,419, \$1,063,090 and \$1,086,276, respectively; 85.61 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$65,708 made by the District and \$46,934 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

**A. School Employees Retirement System (Continued)**

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 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$43,656, \$54,496 and \$76,867, respectively; 74.24 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$19,423, \$19,704 and \$20,151, respectively; 74.24 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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](http://www.strsoh.org), under "Publications" 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 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$78,725, \$81,776 and \$83,560, respectively; 85.61 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

While 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ (932,631)
Net adjustment for revenue accruals	380,343
Net adjustment for expenditure accruals	329,809
Net adjustment for other sources/uses	(102,411)
Funds budgeted elsewhere	112,816
Adjustment for encumbrances	166,062
GAAP basis	\$ (46,012)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special rotary fund, the insurance fund and the public school support fund.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement 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 District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is not party to legal proceedings.

**NOTE 18 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	348,438
Current year qualifying expenditures	(254,902)
Current year offsets	<u>(269,624)</u>
Total	<u>\$ (176,088)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>

In addition to the above statutory set-aside, the District also has \$12,351 in monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2013 follows:

Amount restricted for school bus purchases	<u>\$ 12,351</u>
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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**NOTE 19 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 132,425
Building	574,202
Classroom facilities	2,453,036
Other governmental	<u>197,529</u>
 Total	 <u>\$ 3,357,192</u>

**NOTE 20 - CONTRACTUAL COMMITMENTS**

As of June 30, 2013, the District was obligated for the following contracts:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Payments as of 6/30/2013</u>	<u>Contract Balance at 6/30/2013</u>
Adena Corporation	\$ 11,849,115	\$ 10,971,030	\$ 878,085
Barton Malow	1,434,905	902,724	532,181
Brumbaugh-Herrick, Inc.	9,800	3,800	6,000
Carter Electric, Inc.	1,994,081	1,469,317	524,764
Dawson Insurance	32,529	21,641	10,888
Guenther Mechanical, Inc.	1,462,825	1,318,574	144,251
H.C. Nutting	12,112	4,146	7,966
Kidel	4,000	3,500	500
Mark Schaffer Excavating & Trucking, Inc.	529,016	134,199	394,817
Pacific Impressions, Inc.	107,797	-	107,797
Precision Paving, Inc.	213,583	-	213,583
Ours Excavating LTD	168,000	-	168,000
S.A. Comunale	43,364	37,812	5,552
Stan & Associates, Inc.	3,857	-	3,857
Traditional Hardwood Floors	54,196	33,896	20,300
Zenith Systems, LLC.	396,777	-	396,777
	<u>\$ 18,315,957</u>	<u>\$ 14,900,639</u>	<u>\$ 3,415,318</u>

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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 71,073	\$ 71,073
Cash Assistance:			
School Breakfast Program	10.553	132,368	132,368
National School Lunch Program	10.555	409,851	409,851
Total Child Nutrition Cluster		<u>613,292</u>	<u>613,292</u>
Total U.S. Department of Agriculture		<u><b>613,292</b></u>	<u><b>613,292</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	383,471	378,191
Special Education Grants to States	84.027	441,820	457,807
Improving Teacher Quality	84.367	69,146	83,402
Education Technology State Grant	84.318	-	1,719
ARRA - Race to the Top, Recovery Grant	84.395	369,951	468,664
Total U.S. Department of Education		<u><b>1,264,388</b></u>	<u><b>1,389,783</b></u>
<b>Total</b>		<u><b>\$ 1,877,680</b></u>	<u><b>\$ 2,003,075</b></u>

*The accompanying notes are an integral part of this schedule.*

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Shelby City School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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  
Shelby, Ohio 44875

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 18, 2014.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 18, 2014



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Shelby City School District's, Richland County, Ohio (the District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Shelby City School District, Richland County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as items 2013-001 through 2013-003. These findings did not require us to modify our compliance opinion on each major federal program.

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

### ***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and a deficiency we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-002 and 2013-003 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-001 to be a significant deficiency.

The District's responses to the internal controls over the compliance findings we identified are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 18, 2014

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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	Yes
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA # 10.553 & 10.555 – Child Nutrition Cluster CFDA # 84.010 – Title I Grants to Local Educational Agencies CFDA # 84.395 – Race to the Top
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

None

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS**

**Nutrition Cluster Eligibility**

<b>Finding Number</b>	Finding 2013-001
<b>CFDA Title and Number</b>	Nutrition Cluster, #10.553 & #10.555
<b>Federal Award Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Agriculture; U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Significant Deficiency**

**7 CFR Section 245.6(a)** provides that each local educational agency for schools participating in the National School Lunch Program, School Breakfast Program, Special Milk Program, or a commodity only school, shall provide meal benefit forms for use by families in making application for free or reduced price meals or free milk for their children.

Pursuant to **7 CFR Section 245.6(c)(4)**, the local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in Section 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

During testing, we noted one out of twenty-five (4 percent) free and reduced price lunch applications tested for fiscal year 2013 was incorrectly calculated and approved by the Food Service Director for reduced lunches. Based on the household's total current income and the income eligibility limits, the application should have resulted in paid lunches.

We recommend the District's Food Service Director thoroughly review the annual free and reduced price lunch applications to ensure all children receive the benefits they are entitled to and the District is accurately reimbursed based on student eligibility.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Nutrition Cluster Verification**

<b>Finding Number</b>	Finding 2013-002
<b>CFDA Title and Number</b>	Nutrition Cluster, #10.553 & #10.555
<b>Federal Award Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Agriculture; U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Material Weakness**

**7 CFR 245.6A(c)(1)** provides the local educational agency (LEA) must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year.

**7 CFR 245.6A(d)** provides any LEA is eligible to use one of the alternative sample sizes in paragraph (c)(4) of this section for any school year when the non-response rate for the preceding school year is less than twenty percent. The LEA must annually determine if it is eligible to use one of the alternative sample sizes provided in paragraph (c)(4) of this section. If qualified, the LEA shall contact the State agency in accordance with procedures established by the State agency under paragraph (d)(1) of this section.

In fiscal year 2012, the District had a 28 percent (2 out of 7) nonresponse rate for verification, which disqualifies the District from using one of the alternative sample sizes for verification in fiscal year 2013. During fiscal year 2013, the District used one of the alternative sample sizes, selecting 1 percent of applications, instead of selecting the standard sample size of 3 percent of applications.

We recommend the District review verification requirements and ensure the correct method for verifying the free and reduced lunch applications is used to meet the Federal requirements.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Race to the Top Cash Management**

<b>Finding Number</b>	Finding 2013-003
<b>CFDA Title and Number</b>	ARRA – Race to the Top, Recovery Grant, # 84.395
<b>Federal Award Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Material Weakness**

**2 CFR Section 215.22(a)** indicates payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Payment methods of State agencies or instrumentalities shall be consistent with Treasury-State CMIA agreements or default procedures codified at 31 CFR Part 205. In addition, 34 CFR 80.20(b)(7) indicates in part, “When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.” Interest should not be earned on these funds. If interest is earned on the funds, the interest earned must be remitted to the U.S. Department of Education via a check sent to ODE. ODE will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity per year may be retained under 34 CFR 80.21 for administrative expenses.

Our Race to the Top Federal grant testing identified excess cash on hand at month end. The fiscal year 2013 and 2012 New Tech grants had one month with \$173,550 and \$115,654, respectively, of cash on hand for more than 15 days. As a result of the excess cash on hand, more than \$100 of interest was earned on the Race to the Top grant during the year.

The District should closely monitor cash balances to minimize excess cash on hand. In addition, if more than \$100 of interest is earned on Federal funds, the District should ensure the excess interest is remitted to the U.S. Department of Education as required.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-001	<p>The District's Food Service Director will thoroughly review the annual free and reduced price lunch applications to insure that all children receive the benefits they are entitled to and the District is accurately reimbursed based on student eligibility.</p> <p>The Food Service Director will carefully calculate each application using the most current standards. A second separate review of all applications will then be conducted by the Food Service Director to make sure that any errors are corrected.</p>	To be implemented immediately	Elizabeth Anatra, Treasurer & Richard Hostetler, Food Service Director
2013-002	We have reviewed verification requirements to ensure the correct method for verifying the free and reduced lunch applications is used to meet the Federal requirements. A 3% sample size was used this year. The district will continue to monitor verification requirements for future years.	Implemented for the current school year	Elizabeth Anatra & Richard Hostetler
2013-003	We will make every effort to closely monitor cash balances to minimize excess cash on hand in all Federal Grants.	Implemented for the current school year	Elizabeth Anatra

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Shelby City School District, Richland County, Ohio, (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on June 15, 2010 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 18, 2014

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# Dave Yost • 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  
MAY 8, 2014**