



**Auditor of State
Betty Montgomery**

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which land and other capital assets, net of depreciation are recorded in the governmental activities, and business-type activities and Major Food Service Fund in the accompanying statement of net assets at June 30, 2005 (stated at \$5,239,817 for the governmental activities, and \$78,024 for the business-type activities and Major Food Service Fund), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, and business-type activities and Major Food Service Fund for the year then ended (stated at \$9,957,021 and \$580,510, respectively for the governmental activities, and \$157,511 and \$9,608, respectively for the business-type activities and Major Food Service Fund). Due to our inability to obtain assurance on the amounts recorded in capital assets, we are also unable to obtain assurance as to the amounts recorded as invested in capital assets, net of related debt for the governmental activities, and business-type activities and Major Food Service Fund (stated at \$4,392,553 and \$78,024, respectively). We were unable to satisfy ourselves regarding the land and other capital assets net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets, net of related debt amounts by other auditing procedures.

The Auditor of State served during the year ended June 30, 2005 as the District's financial supervisor under Ohio Rev. Code Section 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code Section 118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Rev. Code Section 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Rev. Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt, for the governmental activities, and business-type activities and Major Food Service Fund, as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and business-type activities and Major Food Service Fund for the District, as of June 30, 2005, and the changes in financial position, and where applicable cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than food service and the aggregate remaining fund information for the District, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District restated its June 30, 2004 fund balances of the General and non-major funds to reflect the correction of miscodings from prior years and to reflect the changes from implementing GASB Technical Bulletin No. 2004-2.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 22.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

August 21, 2006

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

The discussion and analysis of 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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- For governmental activities, net assets decreased \$2,867,191, which represents a 307.8 percent decrease from 2004. Net assets of business-type activities decreased \$9,906 from a deficit net asset of \$10,775 at fiscal year-end 2004.
- General revenues and transfers accounted for \$14,259,571 in revenue or 88.7 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,822,669 or 11.3 percent of total governmental revenues of \$16,082,240.
- The District had \$18,949,431 in expenses related to governmental activities; only \$1,822,669 of these expenses were offset by program specific charges for services and sales, grants and contributions. General revenues (primarily taxes) of \$14,259,571 were used to provide for these programs but were not adequate to offset all expenses.
- The general fund, one of three major funds, had \$12,191,990 in revenues and \$16,687,077 in expenditures. The fund balance of the general fund increased by \$1,123,911.
- Net assets for enterprise funds decreased \$9,906. Total enterprise expenses were \$911,751; \$901,563 of these expenses were offset by program specific charges for services and sales, grants and contributions.

Using this Annual Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole 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 and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund, the debt service fund, and the food service fund are the district's major funds.

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the 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 2005?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets 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 Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

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

The District's Statement of Net Assets and Statement of Activities can be found on pages 13-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions, however, these financial statements focus on the District's most significant funds. The District's major funds are the general, debt service and food service funds.

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 balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in statements for the District as a whole. The proprietary fund financial statements can be found on pages 21-23 of this report.

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, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. 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 27-53 of this report.

The District as a Whole

Governmental Activities

Table 1 shows net assets for fiscal year 2005, compared to 2004.

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Current Assets	\$ 9,056,927	\$ 9,313,167	\$ 22,831	\$ 25,705	\$ 9,079,758	\$9,338,872
Capital Assets, Net	5,239,817	5,197,773	78,024	80,063	5,317,841	5,277,836
<i>Total Assets</i>	<u>14,296,744</u>	<u>14,510,940</u>	<u>100,855</u>	<u>105,768</u>	<u>14,397,599</u>	<u>14,616,708</u>
Liabilities:						
Current Liabilities	9,236,121	9,248,321	98,728	55,349	9,334,849	9,303,670
Long-term Liabilities	6,996,355	4,331,160	22,808	61,194	7,019,163	4,392,354
<i>Total Liabilities</i>	<u>16,232,476</u>	<u>13,579,481</u>	<u>121,536</u>	<u>116,543</u>	<u>16,354,012</u>	<u>13,696,024</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,392,553	4,139,278	78,024	80,063	4,470,577	4,219,341
Restricted	233,703	387,378	0	0	233,703	387,378
Unrestricted (Deficits)	(6,561,988)	(3,595,197)	(98,705)	(90,838)	(6,660,693)	(3,686,035)
<i>Total Net Assets</i>	<u>\$ (1,935,732)</u>	<u>\$ 931,459</u>	<u>\$ (20,681)</u>	<u>\$ (10,775)</u>	<u>\$ (1,956,413)</u>	<u>\$ 920,684</u>

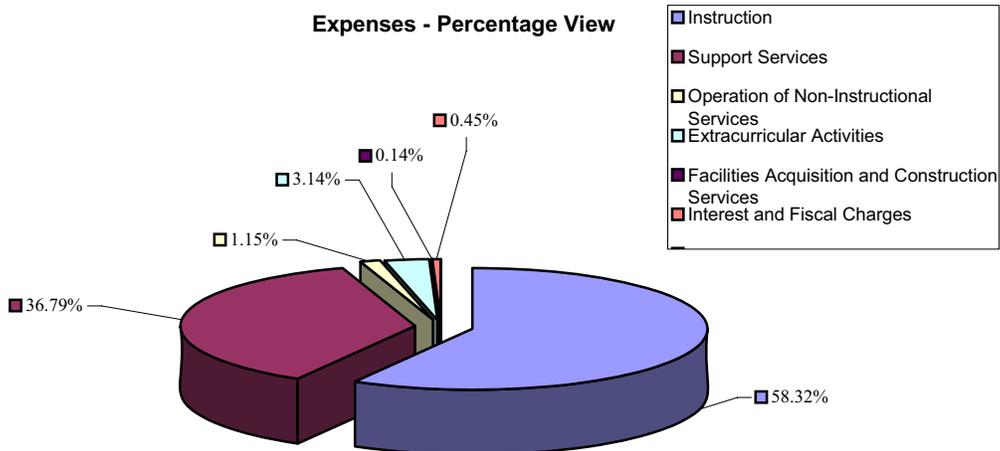
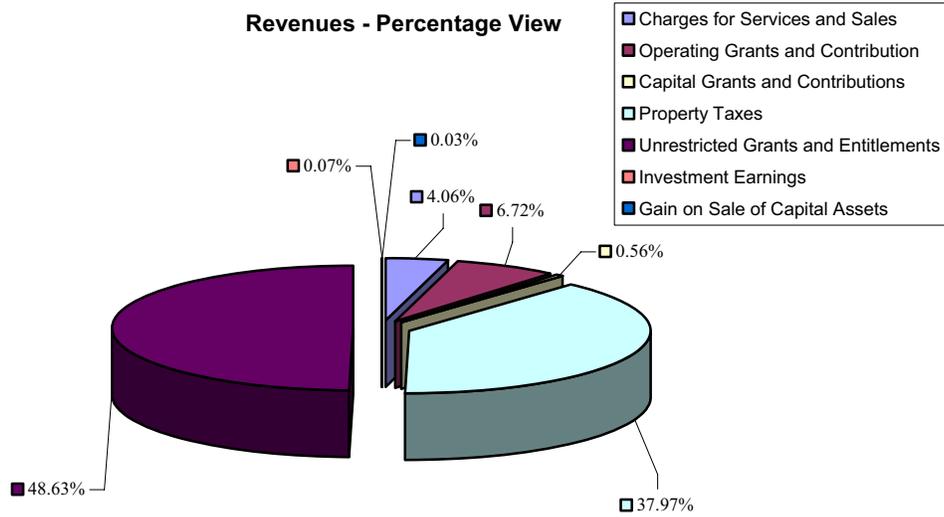
The District's net assets decreased \$2,877,097 during fiscal year 2005. Expenses were greater than revenues for the fiscal year, which resulted in a fiscal emergency situation for the District.

Shelby City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 Unaudited

What are the District's Revenue and Expense Sources?

The following pie graphs provide a summary of the District's governmental activities revenue and expense sources for fiscal year 2005.



Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 38 percent of revenue for governmental activities for the District in fiscal year 2005, a decrease from prior years.

Table 2 shows the changes in net assets for fiscal years 2005 and 2004.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$ 652,454	\$ 368,208	\$ 543,439	\$ 571,619	\$ 1,195,893	\$ 939,827
Operating Grants	1,080,211	983,293	358,124	369,972	1,438,335	1,353,265
Capital Grants	90,004	91,046	-	-	90,004	91,046
General Revenues:						
Property Taxes	6,107,092	8,209,180	-	-	6,107,092	8,209,180
Grants and Entitlements	7,820,208	7,763,946	-	-	7,820,208	7,763,946
Investment Earnings	10,979	28,287	282	13	11,261	28,300
Gain on the Sale of Assets	5,471	-	-	-	5,471	-
Miscellaneous	317,915	281,733	-	-	317,915	281,733
Total Revenues	\$ 16,084,334	\$ 17,725,693	\$ 901,845	\$ 941,604	\$ 16,986,179	\$ 18,667,297

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Expenses:						
Instruction:						
Regular	\$ 8,482,201	\$ 8,680,370	\$ -	\$ -	\$ 8,482,201	\$ 8,680,370
Special	2,094,509	1,849,436	-	-	2,094,509	1,849,436
Vocational	385,968	533,788	-	-	385,968	533,788
Other	89,240	84,715	-	-	89,240	84,715
Support Services:						
Pupils	733,656	987,630	-	-	733,656	987,630
Instructional Staff	1,660,235	1,279,878	-	-	1,660,235	1,279,878
Board of Education	7,329	32,979	-	-	7,329	32,979
Administration	1,402,479	1,363,144	-	-	1,402,479	1,363,144
Fiscal	540,071	484,071	-	-	540,071	484,071
Business	166,757	-	-	-	166,757	-
Operation and Maintenance	1,583,445	1,690,250	-	-	1,583,445	1,690,250
Pupil Transportation	817,114	926,480	-	-	817,114	926,480
Central	60,812	81,728	-	-	60,812	81,728
Operation of Non-Instructional Services	217,694	183,396	-	-	217,694	183,396
Extracurricular Activities	595,829	547,224	-	-	595,829	547,224
Facilities Acquisition and Construction Services	26,087	5,217	-	-	26,087	5,217
Interest and Fiscal Charges	86,005	65,331	-	-	86,005	65,331
Food Service	-	-	908,751	1,039,364	908,751	1,039,364
Uniform School Supplies	-	-	3,000	32,862	3,000	32,862
Total Expenses	<u>18,949,431</u>	<u>18,795,637</u>	<u>911,751</u>	<u>1,072,226</u>	<u>19,861,182</u>	<u>19,867,863</u>
Transfers In (Out) Net	(2,094)	(85,000)	-	85,000	(2,094)	-
Changes in Net Assets	(2,867,191)	(1,154,944)	(9,906)	(45,622)	(2,877,097)	(1,200,566)
Beginning Net Assets	931,459	2,086,403	(10,775)	34,847	920,684	2,121,250
Ending Net Assets	<u>\$ (1,935,732)</u>	<u>\$ 931,459</u>	<u>\$ (20,681)</u>	<u>\$ (10,775)</u>	<u>\$ (1,956,413)</u>	<u>\$ 920,684</u>

The dependence upon general revenues for governmental activities is apparent. 75.3 percent of expenses are supported through taxes and other general revenues. The community, as a whole, is by far the primary support for the District students.

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

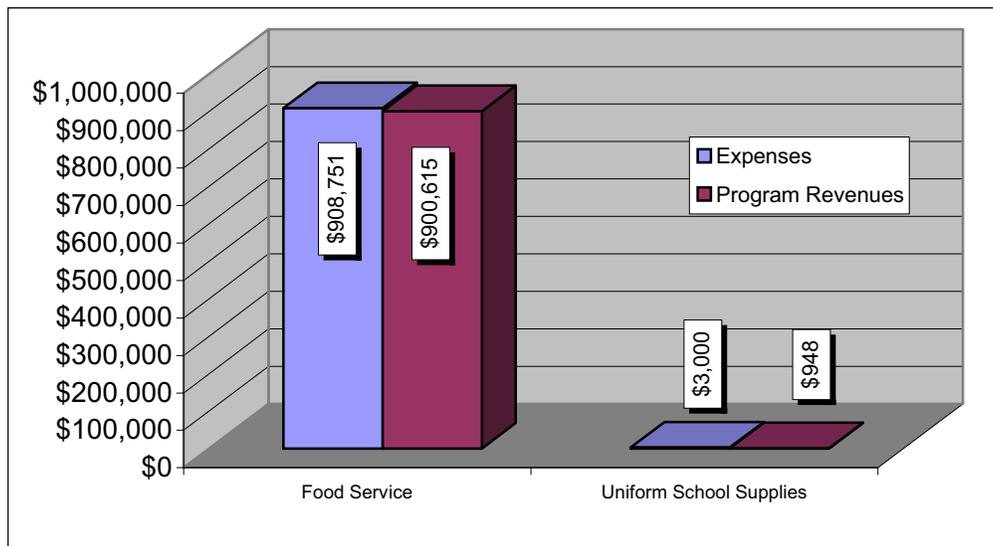
Business-Type Activities

Business-type activities represent the food service and uniform school supplies funds.

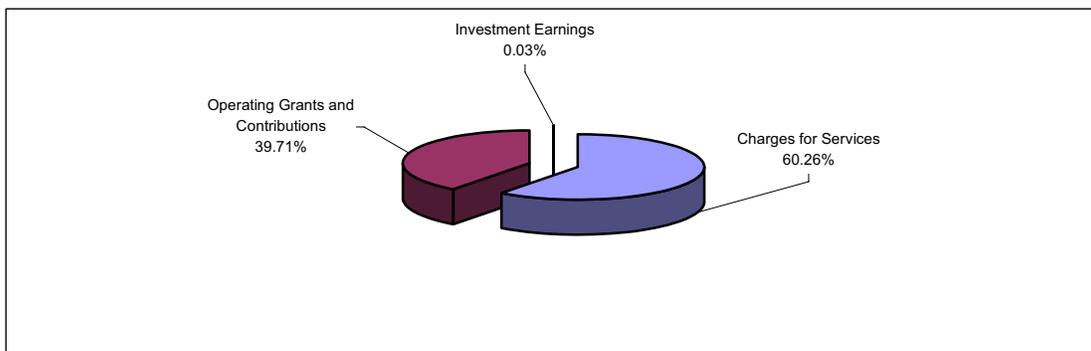
Business-type activities decreased the District's net assets by \$9,906. Key elements of the business-type activities are as follows:

- Losses occurred in the food service fund of \$7,854 and in the uniform school supplies fund of \$2,052 since program revenues were not sufficient to cover expenses. This year, no transfers were made to fund the difference in expenses.

Expenses and Program Revenues - Business-Type Activities



Revenues by Sources - Business-Type Activities



The District's Funds

Information about the District's major governmental funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,088,107 and expenditures of \$20,957,793 (excluding other Financing Sources and Uses). The net change in fund balance for the fiscal year was most significant in the general fund, where the fund balance increased by \$1,123,911. This was due to \$3,253,000 from the proceeds from a State Solvency Loan for fiscal year 2005.

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

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 2005, the District did amend its general fund budget, but the amendments were considered routine. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. The general fund original budget for revenues decreased by \$2,703,368 compared to the final budgeted revenues. The largest decrease was in the area of taxes.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$5,317,841 (net) invested in land, land improvements, buildings and improvements, furniture and equipment, and school buses and vehicles, most of which was in the governmental activities.

Table 3 shows the fiscal year 2005 net capital asset balances for governmental activities and business-type activities compared to the prior fiscal year.

Table 3

	Capital Assets at June 30			
	(Net of Accumulated Depreciation)			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 348,364	\$ 348,364	\$ -	\$ -
Land Improvements	76,228	59,120	-	-
Buildings and Improvements	1,479,020	1,510,883	-	-
Furniture and Equipment	3,006,180	2,961,267	78,024	80,063
School Buses and Vehicles	330,025	318,139	-	-
Totals	\$ 5,239,817	\$ 5,197,773	\$ 78,024	\$ 80,063

The increase in capital assets is due to normal purchases of furniture and equipment to keep staff and students up-to-date. The District continued its ongoing commitment to maintaining and improving its capital assets.

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

Debt Administration

At June 30, 2005, the District had \$840,000 in energy conservation bonds, \$1,207,126 from a State of Ohio Bankruptcy Loan, and \$3,253,000 from a State Solvency Loan. The energy conservation bonds will be repaid from general property tax monies, with final maturity occurring in June 2013. The State of Ohio Bankruptcy Loan is to cover the loss of property taxes due to the LTV-Copperweld bankruptcy and will be repaid to the extent of any tax revenues received as a result of the bankruptcy settlement. The State Solvency Loan was a result of the District's fiscal emergency status and will be repaid in two years, with the repayment amounts being deducted from the state foundation revenue.

See Note 15 to the basic financial statements for detail on the District's debt administration.

Shelby City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Current Financial Related Activities

The District has committed itself to financial excellence for many years. Due to loss in revenue, the District has cut programming and staff over the past few years. With its major source of revenue not keeping pace with expenditure increases, the District must continue to seek additional tax revenue to continue current operations. However, the District cannot look to the State of Ohio for increased revenue and must be on the look out for unexpected additional budget reductions initiated by the Governor.

As the preceding information shows, the District heavily depends on its property taxpayers. The District has been able to continue its education programs. However, financially the future is not without challenges.

State law fixes the amount of budget increases, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the District's five-year forecast. An emergency operating levy of \$950,000 is up for renewal in May 2006. This levy renewal will be a large factor in the planning of future operations.

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations. Virtually no additional state revenue will be available to the District. Thus, both taxes and state revenue are fixed or declining. The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, 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 the Treasurer of the Shelby City School District, 25 High School District Avenue, Shelby, OH 44875.

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Shelby City School District
 Richland County

Statement of Net Assets
 June 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,499,289	\$ 35,239	\$ 1,534,528
Receivables:			
Taxes	7,347,488	-	7,347,488
Accounts	9,348	-	9,348
Intergovernmental	101,828	-	101,828
Internal Balance	18,168	(18,168)	-
Prepaid Items	18,862	-	18,862
Inventory Held for Resale	-	5,760	5,760
Material and Supplies Inventory	61,944	-	61,944
Land	348,364	-	348,364
Capital Assets, Net of Depreciation	4,891,453	78,024	4,969,477
	<u>\$ 14,296,744</u>	<u>\$ 100,855</u>	<u>\$ 14,397,599</u>
Total Assets	\$ 14,296,744	\$ 100,855	\$ 14,397,599
<u>Liabilities:</u>			
Accounts Payable	\$ 133,423	\$ 3,448	\$ 136,871
Accrued Wages	1,388,799	37,173	1,425,972
Pension Obligation Payable	552,233	58,107	610,340
Intergovernmental Payable	307,464	-	307,464
Deferred Revenue	6,372,101	-	6,372,101
Accrued Interest Payable	3,521	-	3,521
Claims Payable	478,580	-	478,580
Long-Term Liabilities:			
Due Within One Year	2,072,477	2,364	2,074,841
Due In More Than One Year	4,923,878	20,444	4,944,322
	<u>16,232,476</u>	<u>121,536</u>	<u>16,354,012</u>
Total Liabilities	16,232,476	121,536	16,354,012
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	4,392,553	78,024	4,470,577
Restricted for:			
Other Purposes	54,812	-	54,812
Capital Projects	178,891	-	178,891
Unrestricted (Deficit)	(6,561,988)	(98,705)	(6,660,693)
	<u>\$ (1,935,732)</u>	<u>\$ (20,681)</u>	<u>\$ (1,956,413)</u>
Total Net Assets	\$ (1,935,732)	\$ (20,681)	\$ (1,956,413)

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County

Statement of Activities
For the Fiscal Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$ 8,482,201	\$ 456,437	\$ 223,340
Special	2,094,509	-	329,267
Vocational	385,968	-	-
Other	89,240	-	-
Support Services:			
Pupils	733,656	-	14,482
Instructional Staff	1,660,235	-	373,836
Board of Education	7,329	-	-
Administration	1,402,479	-	14
Fiscal	540,071	-	-
Business	166,757	-	4
Operation and Maintenance	1,583,445	-	7,985
Pupil Transportation	817,114	-	85
Central	60,812	-	7,095
Operation of Non-Instructional Services	217,694	-	120,388
Extracurricular Activities	595,829	196,017	-
Facilities Acquisition and Construction Services	26,087	-	3,715
Interest and Fiscal Charges	86,005	-	-
Total Governmental Activities	18,949,431	652,454	1,080,211
Business-Type Activities:			
Food Service	908,751	542,491	358,124
Uniform School Supplies	3,000	948	-
Total Business-Type Activities	911,751	543,439	358,124
Totals	\$ 19,861,182	\$ 1,195,893	\$ 1,438,335

General Revenues

Taxes:

Property taxes for general purposes

Property taxes for debt service

Property taxes for capital projects

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Investment Earnings

Gain on Sale of Capital Assets

Miscellaneous

Total General Revenues

Transfers In (Out) Net

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Fiscal Year

Net Assets End of Fiscal Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 10,555	\$ (7,791,869)	\$ -	\$ (7,791,869)
-	(1,765,242)	-	(1,765,242)
-	(385,968)	-	(385,968)
-	(89,240)	-	(89,240)
-	(719,174)	-	(719,174)
47,536	(1,238,863)	-	(1,238,863)
-	(7,329)	-	(7,329)
-	(1,402,465)	-	(1,402,465)
957	(539,114)	-	(539,114)
-	(166,753)	-	(166,753)
20,496	(1,554,964)	-	(1,554,964)
4,631	(812,398)	-	(812,398)
-	(53,717)	-	(53,717)
-	(97,306)	-	(97,306)
-	(399,812)	-	(399,812)
5,829	(16,543)	-	(16,543)
-	(86,005)	-	(86,005)
<u>90,004</u>	<u>(17,126,762)</u>	<u>-</u>	<u>(17,126,762)</u>
-	-	(8,136)	(8,136)
-	-	(2,052)	(2,052)
-	-	(10,188)	(10,188)
<u>\$ 90,004</u>	<u>(17,126,762)</u>	<u>(10,188)</u>	<u>(17,136,950)</u>
	4,346,147	-	4,346,147
	1,481,314	-	1,481,314
	279,631	-	279,631
	7,820,208	-	7,820,208
	10,979	282	11,261
	5,471	-	5,471
	<u>317,915</u>	<u>-</u>	<u>317,915</u>
	14,261,665	282	14,261,947
	<u>(2,094)</u>	<u>-</u>	<u>(2,094)</u>
	<u>14,259,571</u>	<u>282</u>	<u>14,259,853</u>
	<u>(2,867,191)</u>	<u>(9,906)</u>	<u>(2,877,097)</u>
	<u>931,459</u>	<u>(10,775)</u>	<u>920,684</u>
	<u>\$ (1,935,732)</u>	<u>\$ (20,681)</u>	<u>\$ (1,956,413)</u>

Shelby City School District
Richland County

Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,061,950	\$ -	\$ 323,095	\$ 1,385,045
<u>Receivables:</u>				
Taxes	6,887,644	147,840	312,004	7,347,488
Accounts	9,018	-	330	9,348
Intergovernmental	-	-	101,828	101,828
Interfund	382,676	-	-	382,676
Prepaid Items	18,862	-	-	18,862
Material and Supplies Inventory	61,944	-	-	61,944
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	2,557	-	-	2,557
Total Assets	\$8,424,651	\$ 147,840	\$ 737,257	\$9,309,748
<u>Liabilities:</u>				
Accounts Payable	\$ 75,195	\$ -	\$ 56,429	\$ 131,624
Accrued Wages	1,297,062	-	91,737	1,388,799
Interfund Payable	-	-	101,984	101,984
Pension Obligation Payable	487,651	-	64,582	552,233
Intergovernmental Payable	298,425	-	9,039	307,464
Deferred Revenue	6,269,196	147,840	383,088	6,800,124
Total Liabilities	8,427,529	147,840	706,859	9,282,228
<u>Fund Balances:</u>				
Reserved for Encumbrances	225,556	-	77,881	303,437
Reserved for Inventory	61,944	-	-	61,944
Reserved for Taxes Unappropriated	618,448	-	27,451	645,899
Reserved for Budget Stabilization	2,557	-	-	2,557
<u>Unreserved, Undesignated, Reported in:</u>				
General Fund (Deficit)	(911,383)	-	-	(911,383)
Special Revenue Funds (Deficit)	-	-	(96,263)	(96,263)
Capital Projects Funds	-	-	21,329	21,329
Total Fund Balances (Deficit)	(2,878)	-	30,398	27,520
Total Liabilities and Fund Balances	\$ 8,424,651	\$ 147,840	\$ 737,257	\$ 9,309,748

See accompanying notes to the basic financial statements.

Shelby City School District
 Richland County

Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances \$ 27,520

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 5,239,817

Other long-term assets are not available to pay current period
 expenditures and therefore are deferred in the funds:

Property Taxes	329,488	
Intergovernmental	98,535	428,023

Some liabilities are not due and payable in the current period
 and therefore are not reported in the funds:

Accrued Interest Payable	(3,521)	
State Solvency Loan Payable	(3,253,000)	
Bonds Payable	(840,000)	
Compensated Absences Payable	(1,130,899)	
Retirement Incentive	(558,066)	
Capital Leases Payable	(7,264)	
State of Ohio Bankruptcy Loan	(1,207,126)	(6,999,876)

An internal service fund is used by management to charge the
 costs of insurance to individual funds. The assets and
 liabilities of the internal service fund are included in
 governmental activities in the statement of net assets. The net
 assets of the internal service fund, including internal balances
 of \$18,168 are:

(631,216)

Net Assets of Governmental Activities

\$ (1,935,732)

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 4,421,951	\$ 1,481,314	\$ 308,339	\$ 6,211,604
Intergovernmental	7,095,025	697,823	1,099,040	8,891,888
Investment Income	12,716	-	1,530	14,246
Tuition	399,733	-	-	399,733
Extracurricular Activities	-	-	196,017	196,017
Classroom Materials and Fees	56,704	-	-	56,704
Miscellaneous	205,861	-	112,054	317,915
Total Revenue	12,191,990	2,179,137	1,716,980	16,088,107
Expenditures:				
Current:				
Instruction:				
Regular	8,263,636	-	297,241	8,560,877
Special	1,640,948	-	390,943	2,031,891
Vocational	405,004	-	-	405,004
Other	89,240	-	-	89,240
Support Services:				
Pupils	648,823	-	81,461	730,284
Instructional Staff	865,985	-	709,270	1,575,255
Board of Education	7,218	-	-	7,218
Administration	1,345,660	-	10,560	1,356,220
Fiscal	542,554	-	6,792	549,346
Business	-	-	15,909	15,909
Operation and Maintenance	1,484,854	-	164,128	1,648,982
Pupil Transportation	793,691	-	33,076	826,767
Central	32,040	-	28,772	60,812
Operation of Non-Instructional	337	-	153,478	153,815
Extracurricular Activities	454,765	-	110,677	565,442
Capital Outlay	1,728	-	89,272	91,000
Debt Service:				
Principal Retirement	106,231	2,097,000	-	2,203,231
Interest and Fiscal Charges	4,363	82,137	-	86,500
Total Expenditures	16,687,077	2,179,137	2,091,579	20,957,793
Excess (Deficiency) of Revenues Over/(Under) Expenditures	(4,495,087)	-	(374,599)	(4,869,686)
Other Financing Sources (Uses):				
Proceeds of Notes	1,992,000	-	-	1,992,000
Proceeds from Sale of Capital Assets	1,400	-	4,071	5,471
Proceeds from State Solvency Loan	3,253,000	-	-	3,253,000
Transfers In	632,361	158,532	108,227	899,120
Transfers Out	(265,523)	-	(635,947)	(901,470)
Total Other Financing Sources (Uses)	5,613,238	158,532	(523,649)	5,248,121
Net Change in Fund Balance	1,118,151	158,532	(898,248)	378,435
Fund Balances (Deficits) at Beginning of Year - Restated - Note 3	(1,126,789)	(158,532)	928,646	(356,675)
Increase in Reserve for Inventory	5,760	-	-	5,760
Fund Balances (Deficit) at End of Year	\$ (2,878)	\$ -	\$ 30,398	\$ 27,520

Shelby City School District
Richland County

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, 2005

Net Change in Fund Balances-Total Governmental Funds \$ 378,435

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

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

Capital Outlays	\$ 622,554	
Depreciation Expense	<u>(580,510)</u>	42,044

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 5,760

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

Property Taxes	(104,512)	
Grants	<u>98,535</u>	(5,977)

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond, loan, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds are (over) under payments.

Proceeds from Notes	(1,992,000)	
Proceeds from State Solvency Loan	(3,253,000)	
Principal Payments	<u>2,203,231</u>	(3,041,769)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 495

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

Compensated Absences	81,600	
Retirement Incentive	<u>177,406</u>	259,006

The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balances of \$18,168, is allocated among the governmental activities. (505,185)

Change in Net Assets of Governmental Activities \$ (2,867,191)

Shelby City School District
Richland County

Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP) and Actual
General Fund

For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 7,107,321	\$ 4,931,171	\$ 4,468,999	\$ (462,172)
Intergovernmental	7,927,177	7,095,025	7,095,025	-
Tuition	305,000	399,733	399,733	-
Earning on Investments	7,979	12,716	12,716	-
Classroom Materials & Fees	43,300	56,057	56,057	-
Transportation Fees	-	5,589	5,589	-
Miscellaneous	7,500	194,618	194,618	-
Total Revenue	15,398,277	12,694,909	12,232,737	(462,172)
Expenditures:				
Current:				
Instruction:				
Regular	7,864,538	8,268,719	8,268,719	-
Special	1,580,793	1,486,262	1,486,262	-
Vocational	474,069	412,152	412,152	-
Other	236,415	180,479	180,479	-
Support Services:				
Pupils	1,003,380	881,709	881,709	-
Instructional Staff	921,257	962,434	962,434	-
Board of Education	38,605	21,326	21,326	-
Administration	1,401,826	1,317,704	1,317,704	-
Fiscal	508,657	585,773	585,773	-
Operation and Maintenance	1,436,246	1,666,808	1,666,808	-
Pupil Transportation	775,348	813,370	813,370	-
Central	63,599	56,214	56,214	-
Operation of Non-Instructional	6,199	337	337	-
Extracurricular Activities	447,713	458,098	458,098	-
Capital Outlay	5,129	1,728	1,728	-
Total Expenditures	16,763,774	17,113,113	17,113,113	-
Excess of Revenues Under Expenditures	(1,365,497)	(4,418,204)	(4,880,376)	(462,172)
Other Financing Sources (Uses):				
Proceeds from Sale of Notes	950,000	1,992,000	1,992,000	-
Proceeds from Sale of Capital Assets	1,000	1,400	1,400	-
Refund of Prior Year Expenditures	-	9,628	9,628	-
Proceeds of State Solvency Assistance Loan	-	3,253,000	3,253,000	-
Advances Out	-	(537,420)	(537,420)	-
Transfers In	200,000	261	261	-
Transfers Out	-	(265,523)	(265,523)	-
Total Other Financing Sources (Uses)	1,151,000	4,453,346	4,453,346	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(214,497)	35,142	(427,030)	(462,172)
Fund Balance at Beginning of Year	1,048,237	1,048,237	1,048,237	-
Prior Year Encumbrances Appropriated	617,560	617,560	617,560	-
Fund Balance at End of Year	\$ 1,451,300	\$ 1,700,939	\$ 1,238,767	\$ (462,172)

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County

Statement of Net Assets
Proprietary Funds
June 30, 2005

	Food Service	Non-Major Business-Type Activities Enterprise Fund	Total Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 30,875	\$ 4,364	\$ 35,239	\$ 111,686
Material and Supplies Inventory for Resale	5,760	-	5,760	-
Total Current Assets	36,635	4,364	40,999	111,686
Capital Assets, (Net)	78,024	-	78,024	-
Total Assets	\$ 114,659	\$ 4,364	\$ 119,023	\$ 111,686
<u>Liabilities:</u>				
Current Liabilities:				
Accounts Payable	\$ 474	\$ 2,974	\$ 3,448	\$ 1,799
Accrued Wages	37,173	-	37,173	-
Pension Obligation Payable	58,107	-	58,107	-
Interfund Payable	18,168	-	18,168	280,692
Claims Payable	-	-	-	478,580
Compensated Absences Payable	2,364	-	2,364	-
Total Current Liabilities	116,286	2,974	119,260	761,071
Long Term Liabilities:				
Compensated Absences Payable	20,444	-	20,444	-
Total Liabilities	136,730	2,974	139,704	761,071
<u>Net Assets:</u>				
Invested in Capital Assets	78,024	-	78,024	-
Unrestricted	(100,095)	1,390	(98,705)	(649,385)
Total Net Assets	\$ (22,071)	\$ 1,390	\$ (20,681)	\$ (649,385)

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County

Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds

For the Fiscal Year Ended June 30, 2005

	Food Service	Non-Major Business-Type Activities Enterprise Fund	Total Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Operating Revenues:				
Food Services	\$ 542,491	\$ -	\$ 542,491	\$ -
Classroom Materials and Fees	-	948	948	-
Charges for Services	-	-	-	2,362,597
Other	-	-	-	24,951
Total Operating Revenues	542,491	948	543,439	2,387,548
Operating Expenses:				
Salaries	317,824	-	317,824	-
Fringe Benefits	178,988	-	178,988	-
Purchased Services	16,273	-	16,273	7,702
Materials and Supplies	38,265	3,000	41,265	4,288
Cost of Sales	347,153	-	347,153	-
Depreciation	9,608	-	9,608	-
Claims	-	-	-	2,823,143
Other	640	-	640	21,260
Total Operating Expenses	908,751	3,000	911,751	2,856,393
Operating (Loss)	(366,260)	(2,052)	(368,312)	(468,845)
Non-Operating Revenues:				
Federal Donated Commodities	40,234	-	40,234	-
Operating Grants	317,890	-	317,890	-
Interest Income	282	-	282	3,267
Total Non-Operating Revenues	358,406	-	358,406	3,267
Loss Before Transfers	(7,854)	(2,052)	(9,906)	(465,578)
Transfers In	-	-	-	5
Transfers Out	-	-	-	(261)
Change in Net Assets	(7,854)	(2,052)	(9,906)	(465,834)
Net Assets at Beginning of Year	(14,217)	3,442	(10,775)	(183,551)
Net Assets at End of Year	\$ (22,071)	\$ 1,390	\$ (20,681)	\$ (649,385)

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Food Service	Non-Major Business-Type Activities Enterprise Fund	Total Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 570,198	\$ 853	\$ 571,051	\$ 2,364,216
Cash Received From Other Operating Sources	-	-	-	24,951
Cash Payments to Suppliers for Goods and Services	(361,478)	(113)	(361,591)	(10,191)
Cash Payments to Employees for Services	(315,216)	-	(315,216)	-
Cash Payments for Employee Benefits	(216,894)	-	(216,894)	-
Cash Payments for Claims	-	-	-	(2,653,186)
Cash Payments for Other	(640)	-	(640)	(21,260)
Net Cash Provided by (Used in) Operating Activities	(324,030)	740	(323,290)	(295,470)
Cash Flows from Noncapital Financing Activities:				
Transfers In	-	-	-	81,936
Transfers Out	-	-	-	(82,192)
Short-term Loans from Other Funds	-	-	-	280,692
Operating Grants Received	317,890	-	317,890	-
Net Cash Provided by Noncapital Financing Activities	317,890	-	317,890	280,436
Cash Flows from Capital & Related Financing Activities:				
Payments for Capital Acquisitions	(7,569)	-	(7,569)	-
Cash Flows from Investing Activities:				
Interest Income	282	-	282	3,267
Net Increase (Decrease) in Cash and Cash Equivalents	(13,427)	740	(12,687)	(11,767)
Cash and Cash Equivalents Beginning of Year	44,302	3,624	47,926	123,453
Cash and Cash Equivalents End of Year	\$ 30,875	\$ 4,364	\$ 35,239	\$ 111,686
Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating (Loss)	\$ (366,260)	\$ (2,052)	\$ (368,312)	\$ (468,845)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by (Used in) Operating Activities				
Depreciation	9,608	-	9,608	-
Donated Commodities Revenue	40,234	-	40,234	-
(Increase) Decrease in Assets:				
Accounts Receivable	381	95	476	1,619
Inventory Held for Resale	1,737	-	1,737	-
Intergovernmental Receivable	27,326	-	27,326	-
Increase (Decrease) in Liabilities:				
Accounts Payable	(1,758)	2,697	939	1,799
Interfund Payable	(39,352)	-	(39,352)	-
Accrued Wages and Benefits Payable	(15,667)	-	(15,667)	-
Compensated Absences Payable	(3,955)	-	(3,955)	-
Claims Payable	-	-	-	169,957
Pension Obligation Payable	23,676	-	23,676	-
Total Adjustments	42,230	2,792	45,022	173,375
Net Cash Provided by (Used in) Operating Activities	\$ (324,030)	\$ 740	\$ (323,290)	\$ (295,470)

Shelby City School District
 Richland County

Statement of Fiduciary Net Assets
 Fiduciary Funds

June 30, 2005

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 568,805	\$ 71,593
Investments	20,176	-
Investments in Segregated Accounts	244,248	-
Accrued Interest Receivable	723	-
	<hr/>	<hr/>
Total Assets	<u>\$ 833,952</u>	<u>\$ 71,593</u>
<u>Liabilities:</u>		
Accounts Payable	\$ -	\$ 5,006
Undistributed Monies	-	2,248
Due to Students	-	64,339
	<hr/>	<hr/>
Total Liabilities	<u>-</u>	<u>\$ 71,593</u>
<u>Net Assets:</u>		
Restricted for:		
Principal Endowment	233,460	
Unrestricted:		
Held in Trust for Scholarships	600,492	
	<hr/>	
Total Net Assets	<u>\$ 833,952</u>	

See accompanying notes to the basic financial statements.

Shelby City School District
Richland County

Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2005

	<u>Scholarship</u>
Additions:	
Interest Income	<u>\$ 18,744</u>
Deductions:	
Administrative Fees	1,380
Scholarships	19,000
Other	<u>5,631</u>
Total Deductions	<u>26,011</u>
Change in Net Assets	(7,267)
Net Assets Beginning of Year	<u>841,219</u>
Net Assets End of Year	<u><u>\$ 833,952</u></u>

See accompanying notes to the basic financial statements.

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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Shelby City School District (the District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under an elected Board of Education (5 members) elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1854 through the consolidation of existing land areas and school districts. The District serves an area of approximately 72 square miles. It is located in Richland County, and includes all of the City of Shelby and portions of Sharon, Plymouth, Jackson, Bloominggrove and Franklin Townships. The District is the 240th largest in the State of Ohio (among 612 Districts) in terms of enrollment. It is staffed by 131 non-certificated employees and 173 certificated full-time teaching personnel who provide services to 2,243 students and other community members. The District currently operates six instructional buildings, one administrative building, and one garage.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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 their budget, the issuance of their debt or the levying of their taxes. The District has no component units. The following organizations are described due to their relationship to the District.

Related Organizations

The District is associated with four organizations, which are defined as a joint venture, a jointly governed organization, and an insurance purchasing pool and a group purchasing pool. These organizations include the Heartland Council of Governments, the Pioneer Career and Technology Center, (a Vocational District), the Ohio School Boards Association Worker's Compensation Group Rating Plan, and the Metropolitan Educational Council. These organizations are presented in Notes 17, 18, 19, and 20 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

A. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets 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 activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

FUND FINANCIAL STATEMENTS

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting Funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are classified into three categories: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District’s major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for 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.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Debt Service Fund - The debt service fund is used to account for the debt of the District.

The other governmental funds of the District account for grants and other resources, and capital projects whose uses are restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

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

Food Service Enterprise Fund – The food service enterprise fund accounts for the financial transactions related to the food service operations of the District.

Internal Service Funds - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical and dental benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 that accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are due to students for activities they have participated in. The District's agency funds account for student managed activities.

C. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions

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

Non-exchange 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. 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 fiscal year when the resources are required to be used of 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 non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense with a like amount reported as donated commodities 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.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

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

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

F. Cash and Investments

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to donated common stock, a guaranteed investment contract, a repurchase agreement, and STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase is reported at cost or amortized cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's office that 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 share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$12,716, which includes \$3,523 assigned from other funds.

For presentation on the basic financial statements, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and the expenditure/expense is reported in the year in which it was consumed.

H. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in/first-out (FIFO) basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15
Buildings and Improvements	40
Furniture and Equipment	10
School Buses and Vehicles	10

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

J. Interfund Balances

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

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees age fifty (50) or greater in accordance with GASB 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, 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, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

M. Net Assets

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

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

N. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property taxes unappropriated, and budget stabilization in the governmental funds.

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

P. Interfund Transactions

Transfers between governmental and business-type activities on the governmental-wide statements are reported in the same manner as general revenues.

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

Q. Estimates

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

R. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization. See Note 14 for details.

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. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 and the correction of a prior year miscoding for tax revenue had the following effect on the fund balances of the major and non-major Governmental funds of the District as they were previously reported as of June 30, 2004:

	Debt			Total
	General	Service	Nonmajor	
Fund Balances, June 30, 2004	\$ (1,471,393)	\$ (158,532)	\$ 1,390,818	\$ (239,107)
GASB Technical Bulletin No. 2004-2	(117,568)	-	-	(117,568)
Tax Revenue Correction	462,172	-	(462,172)	-
Restated Fund Balance, June 30, 2004	<u>\$ (1,126,789)</u>	<u>\$ (158,532)</u>	<u>\$ 928,646</u>	<u>\$ (356,675)</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

B. Deficit Fund Balances

At June 30, 2005, the following funds had deficit fund balances. The general fund is liable for any deficit funds and provides operating transfers when cash is required, not when accruals occur.

Fund Name	Fund Number	Amount
General Fund	001	\$ 2,878
Disadvantaged Pupil Impact Aid Fund	447	7,149
Student Intervention Fund	460	6,096
Title VI-B Fund	516	96,104
Title I Fund	572	26,447
Innovative Programs Title V Fund	573	4,993
Technology Title II-D Fund	599	29,168
Self Insurance Fund	024	659,273
Food Service Fund	006	22,071

C. Legal Compliance

Contrary to Section 5705.10, Ohio Revised Code, the District had negative cash fund balances during the year.

Contrary to Section 5705.39, Ohio Revised Code, the District did not file the annual appropriation measure with the County Auditor and therefore, did not receive the certificate from the County Auditor stating the total appropriations from each fund did not exceed the total official estimated revenue.

Contrary to Section 5705.41(D), Ohio Revised Code, the District did not certify all commitments as required by Ohio law.

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

Statutes require the classification of monies held by the District into three categories:

Active Deposits: those monies required to be kept in a "cash" or "near-cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

Inactive Deposits: those monies not required for use within the current five-year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits: 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.

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 money deposited with the institution.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principle 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 the 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 repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market 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 (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in § 135.03 of the Revised Code;
6. The State Treasurer's Investment pool (STAR Ohio);
7. Certain bankers' 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 instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the District had \$1,090 in undeposited cash on hand which is included on the basic financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents". The District also had \$244,248 of a scholarship trust fund invested with Shelby Foundation which is included on the basic financial statements of the District as "Investments in Segregated Accounts". This amount is not included in the Deposits noted below.

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$1,590,082 and the bank balance was \$1,634,257. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,534,257 of the District's bank balance was exposed to custodial credit risk as discussed below, while \$100,000 was covered by federal depository insurance.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 percent 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.

Investments: At fiscal year-end, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>
		<u>6 months or less</u>
Common Stock	\$ 20,176	\$ 20,176
STAR Ohio	583,754	583,754
	<u>\$ 603,930</u>	<u>\$ 603,930</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.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% to Total</u>
Common Stock	\$ 20,176	3.34
STAR Ohio	583,754	96.66
	<u>\$ 603,930</u>	<u>100.00</u>

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,590,082
Investments	603,930
Investments in segregated account	244,248
Cash on hand	1,090
Total	<u>\$ 2,439,350</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,499,289
Business-type activities	35,239
Private purpose trust funds	833,229
Agency funds	71,593
Total	<u>\$ 2,439,350</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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, 2005, are available to finance fiscal year 2005 operations. 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 by the County Auditor.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2005, was \$618,448 in the general fund and \$27,451 in the permanent improvement fund.

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Public Utility Tangible Personal Property	\$ 181,324,880	77.34%	\$ 183,237,760	81.10%
	53,139,730	22.66%	42,700,249	18.90%
Total Assessed Value	\$ 234,464,610	100.00%	\$ 225,938,009	100.00%
Tax rate per \$1,000 of assessed valuation	\$49.60		\$49.70	

NOTE 6 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005, as reported on the fund financial statements, consist of the following individual fund loans receivables and payables:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Fund:	\$ 101,984
General Fund	Self Insurance Fund	280,692
Total		\$ 382,676

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These 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 financial statements; however, internal balances at June 30, 2005 are reported on the statement of net assets for amounts due to the self-insurance fund from the food service fund in the amount of \$18,168.

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
<u>Governmental Funds:</u>		
General Fund	\$ 632,361	\$ 265,523
Debt Service Fund	158,532	-
Nonmajor Governmental Funds	108,227	635,947
 <u>Proprietary Fund:</u>		
Internal Service Fund	5	261
 <u>Fiduciary Funds:</u>		
Agency Funds	5,321	2,715
 Totals	 \$ 904,446	 \$ 904,446

The residual equity transfer out on the Statement of Activities represents transfers to fiduciary funds.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service; reclassification of prior year distributed monies, to segregate money for anticipated capital projects; and to return money to the fund from which it was originally provided once a project is completed. Transfers between the nonmajor governmental, internal service, agency, and general funds were to reclassify certain prior year advances as transfers and to correct certain prior year coding errors.

NOTE 7 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP) and Actual presented for the general fund and is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

Net Change in Fund Balance	General Fund
Budget Basis	\$ (427,030)
Adjustments:	
Revenue Accruals:	
Accrued FY2004, Received in Cash FY2005	(669,562)
Accrued FY2005, Not Yet Received in Cash	628,815
Expenditure Accruals:	
Accrued FY2004, Paid in Cash FY2005	2,074,352
Accrued FY2005, Not Yet Paid in Cash	(2,131,191)
Encumbrances	482,875
Other Financing Sources/Uses:	
Refunds	(9,628)
Advances/Transfers (Net)	1,169,520
GAAP Basis	\$ 1,118,151

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Governmental Funds:	
Taxes:	
General Fund	\$ 6,887,644
Debt Service Fund	147,840
Nonmajor Governmental Funds	312,004
Total Taxes Receivable	7,347,488
Accounts:	
General Fund	9,018
Nonmajor Governmental Funds	330
Total Accounts Receivable	9,348
Intergovernmental:	
Nonmajor Governmental Funds	101,828
Total Governmental Funds	7,458,664
Fiduciary Fund:	
Accrued Interest:	
Private Purpose Trust Fund	723
Grand Total	\$ 7,459,387

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	6/30/2004	Additions	Deductions	6/30/2005
<u>Governmental Activities</u>				
Land	\$ 348,364	\$ -	\$ -	\$ 348,364
Land Improvements	498,770	24,393	-	523,163
Buildings and Improvements	6,958,837	12,000	-	6,970,837
Furniture and Equipment	5,452,214	522,356	-	5,974,570
School Buses and Vehicles	1,316,099	63,805	-	1,379,904
Total	<u>14,574,284</u>	<u>622,554</u>	<u>-</u>	<u>15,196,838</u>
Less Accumulated Depreciation:				
Land Improvements	439,650	7,285	-	446,935
Buildings and Improvements	5,447,954	43,863	-	5,491,817
Furniture and Equipment	2,490,947	477,443	-	2,968,390
School Buses and Equipment	997,960	51,919	-	1,049,879
Total Accumulated Depreciation	<u>9,376,511</u>	<u>580,510</u>	<u>-</u>	<u>9,957,021</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 5,197,773</u>	<u>\$ 42,044</u>	<u>\$ -</u>	<u>\$ 5,239,817</u>
<u>Business-Type Activities</u>				
Furniture and Equipment	\$ 227,966	\$ 7,569	\$ -	\$ 235,535
Less Accumulated Depreciation	<u>147,903</u>	<u>9,608</u>	<u>-</u>	<u>157,511</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 80,063</u>	<u>\$ (2,039)</u>	<u>\$ -</u>	<u>\$ 78,024</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 109,631
Special	531
Vocational	1,819
Support Services:	
Pupils	613
Instructional Staff	206,481
Board of Education	111
Administration	9,819
Fiscal	4,818
Operation and Maintenance	150,848
Pupil Transportation	46,595
Operation of Non-Instructional Services	3,312
Extracurricular Activities	19,845
Facilities Acquisition and Construction Services	<u>26,087</u>
Total Depreciation Expense	<u>\$ 580,510</u>

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT

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 2005, the District's insurance coverage was as follows:

Type of Coverage	Deductible	Liability Limit
Building and Contents-replacement cost	\$ 2,500	\$ 42,169,456
Electronic Data Processing Equipment	1,000	1,268,390
Automobile Liability	250/500	1,000,000
Uninsured Motorists	250/500	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability		2,000,000
Employer's Liability (Ohio Stop Gap)		2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

Medical/surgical, life, and dental insurance are offered to employees through a self-insurance internal service fund. The claims liability of \$478,580 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Balance	Current-Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2004	\$ 196,982	\$ 2,733,879	\$ 2,622,238	\$ 308,623
2005	308,623	2,823,143	2,653,186	478,580

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The employer rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$439,409, \$250,436, and \$409,983, respectively; 50 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$219,705.

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

B. State Teachers Retirement Systems

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a publicly available, stand-alone financial report. Copies of STRS Ohio 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

For the fiscal year ended June 30, 2005, 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. The District's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,657,518, \$1,118,676 and \$1,170,021, respectively; 83.33 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$276,254.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of recipients currently receiving health care benefits is approximately 62,000.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the school district, the amount to fund health care benefits, including surcharge, equaled \$172,175 for the fiscal year ended June 30, 2005.

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the school district, this amount equaled \$127,501 for the fiscal year ended June 30, 2005.

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available) net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

NOTE 13 - COMPENSATED ABSENCES

Sick Leave

Each full time professional staff member is entitled to fifteen (15) days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth (1 1/4) days for each calendar month under contract. Sick leave is cumulative up to two hundred and eighty days.

Severance Pay

Certified Employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement pay is the certified employee's accrued but unused sick leave days at the time of retirement up to one-fourth of accrued but unused sick leave, up to a severance pay maximum of sixty-five days.

Non-Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement is one fourth of the first 160 days of accrued but unused sick leave; and one-third of any accrued but unused sick leave over 160 days to the maximum of 253 days, which was effective July 1, 2004.

NOTE 14 - SET ASIDES

The District is required by State statute to annually set aside, in the general fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offsets by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward and used for the same purposes in future years. The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements and budget stabilization during fiscal year 2005:

	Textbook Reserve	Capital Improvements Reserve	Budget Stabilization	Total
Balance 7/1/04	\$ (28,586)	\$ -	\$ 437,429	\$ 408,843
Required Set-Aside	308,811	308,811	3,548	621,170
Current Year Offsets	-	(308,617)	-	(308,617)
Qualifying Expenditures	(327,993)	(269,169)	(438,420)	(1,035,582)
Balance 6/30/05	<u>(47,768)</u>	<u>(268,975)</u>	<u>2,557</u>	<u>(314,186)</u>
Amount Carried Forward to Fiscal Year 2006	<u>\$ (47,768)</u>	<u>\$ -</u>	<u>\$ 2,557</u>	<u>\$ (45,211)</u>
Total Restricted Assets			<u>\$ 2,557</u>	<u>\$ 2,557</u>

**SHELBY CITY SCHOOL DISTRICT
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Effective April 10, 2001 the Ohio legislature passed Am. Sub. Senate Bill 345 that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A District may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used.

The District has elected to maintain the budget reserve. The District added additional BWC refunds to the reserve during the year. In addition, the Board approved the releasing of part of the budget reserve for operating expenditures as a result of the Fiscal Emergency declaration. The amount of the former budget stabilization reserve identified as Bureau of Workers' compensation refunds is classified as Reserved for Budget Stabilization.

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

NOTE 15 - LONG-TERM LIABILITIES

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

	Outstanding 06/30/04	Additions	Reductions	Outstanding 06/30/05	Due In One Year
<u>Governmental Activities</u>					
Energy Conservation Bonds					
5.1%; Matures 06/1/2013	\$ 945,000	\$ -	\$ 105,000	\$ 840,000	\$ 105,000
State of Ohio Bankruptcy Loan	1,207,126		-	1,207,126	-
State Solvency Loan	-	3,253,000	-	3,253,000	1,626,500
Revenue Anticipation Notes					
Matured 6/30/2005	-	1,992,000	1,992,000	-	-
Retirement Incentive	735,472	-	177,406	558,066	25,154
Compensated Absences	1,212,499	-	81,600	1,130,899	308,559
Capital Leases	113,495	-	106,231	7,264	7,264
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 4,213,592</u>	<u>\$5,245,000</u>	<u>\$ 2,462,237</u>	<u>\$ 6,996,355</u>	<u>\$2,072,477</u>
<u>Business-Type Activities</u>					
Compensated Absences	<u>\$ 26,763</u>	<u>\$ -</u>	<u>\$ 3,955</u>	<u>\$ 22,808</u>	<u>\$ 2,364</u>

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

State of Ohio Bankruptcy Loan - The State of Ohio Bankruptcy loan is due to a local business filing for Chapter Eleven receivership. The loan was received in fiscal year 2002. The District will have to repay the loan to the extent of the tax revenue received as a result of the bankruptcy.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

State Solvency Loan - As a result of the District being declared in fiscal emergency during fiscal year 2005, the District received a loan from the Ohio Department of Education for the amount of the projected deficit for fiscal year 2005. The loan will be repaid through monthly deductions from the state foundation revenue, and will be repaid during fiscal year 2007.

Revenue Anticipation Notes - There were three revenue anticipation notes issued during the fiscal year. The revenue anticipation notes were a \$950,000 note issued on October 1, 2004, a \$350,000 note issued on January 21, 2005, and a \$692,000 note issued on April 7, 2005. All three notes were paid by year-end. The revenue anticipation notes were paid from the debt service fund.

Retirement Incentive - The retirement incentive is only for certified employees. To be eligible, an employee must have worked in the school system for ten years. The employee receives pay for two days for each year in the school system, up to a maximum of 45 days. The retirement incentive will be paid from the fund from which the employees' salary is paid.

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases are paid from the general fund.

The annual requirements to amortize the District's general obligation bonds outstanding as of June 30, 2005, including interest are as follows:

Fiscal Year Ending June 30	Energy Conservation Bonds			State Solvency Loan		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 105,000	\$ 42,840	\$ 147,840	\$ 1,626,500	\$ -	\$ 1,626,500
2007	105,000	37,485	142,485	1,626,500	-	1,626,500
2008	105,000	32,140	137,140	-	-	-
2009	105,000	26,775	131,775	-	-	-
2010	105,000	21,420	126,420	-	-	-
2011-2013	315,000	32,130	347,130	-	-	-
Total	<u>\$ 840,000</u>	<u>\$ 192,790</u>	<u>\$ 1,032,790</u>	<u>\$ 3,253,000</u>	<u>\$ -</u>	<u>\$ 3,253,000</u>

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$16,241,421 and an unvoted debt margin of \$225,938.

NOTE 16 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for the acquisition of copier equipment and computers.

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances for the governmental funds. A liability was recorded in the government-wide financial statements for \$7,264. Principal payments in fiscal year 2005 totaled \$106,231. This amount is reflected as "Debt Service: Principal Retirement" in the general fund.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005:

Year Ending June 30	Capital Lease Liability
2006	\$ 7,397
Total Minimum Lease Payments	7,397
Less: Amount Representing Interest	(133)
Present Value of Future Minimum Lease Payments	\$ 7,264

NOTE 17- JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments - The Heartland Council of Governments (the COG) is a governmental joint venture consisting of 16 local school districts, 1 educational service center and 1 career and technology center. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member Districts. Each member District supports the COG based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the COG, all current members will share in the net obligations or asset liquidation in a ratio proportionate to their last twelve months' financial contributions. The COG is governed by a Board of Directors, consisting of superintendents of the member Districts. The degree of control exercised by any participating District is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have an equity interest in the COG as the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the Treasurer at Pioneer Career and Technology Center, who serves as the fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875.

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

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

NOTE 19 - INSURANCE PURCHASING POOL

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

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 Districts is calculated as one experience and a common premium rate is applied to all 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. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 20 - GROUP PURCHASING POOL

Metropolitan Educational Council (MEC) - The District is a member of the Metropolitan Educational Council (MEC) purchasing group. 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.

NOTE 21 - CONTINGENT LIABILITIES

A. Grants

The District receives significant financial assistance from numerous federal and state 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2005.

B. Litigation

The District is involved in a lawsuit. In the opinion of management and the District's legal counsel, any potential liability would not have a material effect on the financial statements.

C. School Funding Decision

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

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

NOTE 22 – SITUATION OF FINANCIAL DISTRESS

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

During this fiscal year, many hard decisions about staffing and educational programs had to be made to regain financial stability. The workforce has been reduced. The School District has effectively minimized facilities-related expenditures for purchased services, as well as supplies and materials. Excluding utilities, the School District has reduced expenditures for purchased services and supplies.

Although not out of financial distress, the School District's implementation of Board of Education and Auditor of State's recommendations, the School District should have results that will impact positively on fiscal year 2006.

NOTE 23 – SUBSEQUENT EVENTS

The District was notified by the Ohio Department of Education that bankruptcy settlement payments received by the District must be used to make payments on the State of Ohio Bankruptcy Loan beginning July, 2006 by foundation settlement deductions of \$3,274.73 per settlement over 36 months.

On May 3, 2005 the electors of the District approved a 1% school income tax for a continuing period of time beginning January 1, 2006.

On July 28, 2005 the District issued a \$1,000,000 tax anticipation note in anticipation of the collection of proceeds of the 1% school income tax approved on May 3, 2005. The notes were issued at an interest rate of 4.35% for five years with final maturity as of December 1, 2010.

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SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ <i>Pass Through Grantor/</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550		\$40,234		\$40,234
School Breakfast Program	044776-05-PU-05	10.553	\$35,293		\$35,293	
	044776-05-PU-04		8,731		8,731	
Total School Breakfast Program			44,024		44,024	
National School Lunch Program	044776-LL-P4-05	10.555	200,651		200,651	
	044776-LL-P4-04		56,720		56,720	
Total National School Lunch Program			257,371		257,371	
Special Milk Program for Children	044776-02-PU-05	10.556	4,615		4,615	
	044776-02-PU-04		1,135		1,135	
Total Special Milk Program for Children			5,750		5,750	
Total U.S. Department of Agriculture - Child Nutrition Cluster			307,145	40,234	307,145	40,234
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044776-C1-S1-05	84.010	264,631		248,207	
	044776-C1-S1-04		0		16,238	
Total Title I Grants to Local Educational Agencies			264,631		264,445	
Special Education - Grants to States	044776-6B-PB-05	84.027	4,844		4,424	
	044776-6B-SD-05		8,738		8,411	
	044776-6B-SF-05		444,340		435,825	
	044776-6B-SF-04		0		20,502	
	044776-6B-SF-03		0		5,091	
Total Special Education - Grants to States			457,922		474,253	
Safe and Drug-Free Schools and Communities - State Grants	044776-DR-S1-05	84.186	2,374		1,047	
	044776-DR-S1-04		(1,415)		7,060	
Total Safe and Drug-Free Schools and Communities - State Grants			959		8,107	
State Grants for Innovative Programs	044776-C2-S1-05	84.298	18,134		13,507	
	044776-C2-S1-04		(17,153)		4,562	
Total State Grants for Innovative Programs			981		18,069	
Education Technology State Grants	044776-TJ-S1-05	84.318	2,737			
	044776-TJ-S1-04		(2,049)		5,600	
Total Education Technology State Grants			688		5,600	
Improving Teacher Quality State Grants	044776-TR-S1 05	84.367	81,998		71,916	
	044776-TR-S1 04		(39,260)		(13,905)	
Total Improving Teacher Quality State Grants			42,738		58,011	
Total U.S. Department of Education			767,919		828,485	
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
<i>Passed through the Ohio Department of Homeland Security:</i>						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	N/A	97.036	1,584		1,584	
Totals			\$1,076,648	\$40,234	\$1,137,214	\$40,234

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 21, 2006 in which we noted we were unable to obtain assurance regarding land and other capital assets net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt. We also noted the District restated its June 30, 2004 fund balances of the general and non-major funds to reflect the correction of miscodings from prior years and to reflect the changes in implementing GASB Technical Bulletin No. 2004-2. In addition, we noted the District is experiencing certain financial difficulties. We also noted the Auditor of State served as the District's financial supervisor under Ohio Rev. Code Section 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District, because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code Section 118.04. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-004 through 2005-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-004 listed above to be a material weakness. In a separate letter to the District's management dated August 21, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the District's management dated August 21, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

August 21, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Shelby City School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 2005-009 in the accompanying Schedule of Findings, the District did not comply with requirements regarding special tests and provisions applying to its food donation program. Compliance with that requirement is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as items 2005-007 and 2005-008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated August 21, 2006, we reported an other matter related to the internal control over federal compliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

August 21, 2006

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 10.550, 10.553, 10.555, and 10.556, Child Nutrition Cluster; CFDA # 84.027, Special Education_Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund does not exceed the total official estimated or amended official estimated revenue.

FINDING NUMBER 2005-001 (Continued)

Noncompliance Citation (Continued)

The Treasurer did not file the annual appropriation measure with the County Auditor and therefore, did not receive the certificate from the county auditor stating the total appropriations from each fund did not exceed the total official estimated revenue. As a result, the appropriation measure was not in effect and expenditures made were not legally expended. The District also did not receive the certificate from the County Auditor stating the total appropriations from each fund did not exceed the amended official estimated revenue for the April 29, 2005 and June 1, 2005 amendments.

Official's Response: To the best of my knowledge citation 2005-001 has been corrected for FY2006.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established.

At December 31, 2004, the District had negative cash fund balances in the following funds:

<u>Special Revenue Funds:</u>	
Other Grants Fund	\$5,106
DPIA Fund	25,355
Special Education Fund	52,028
Title I Fund	98,132
Reducing Class Size Fund	32,028
<u>Debt Service Fund</u>	29,243
<u>Capital Projects Fund:</u>	
Permanent Improvement Fund	60,707
<u>Enterprise Funds:</u>	
Food Service Fund	19,135
Uniform School Supply Fund	12,362
<u>Internal Service Fund:</u>	
Self Insurance Fund	226,164

At March 31, 2005, the District had negative cash fund balances in the following funds:

<u>General Fund</u>	\$636,137
<u>Special Revenue Funds:</u>	
DPIA Fund	2,436
Title I Fund	28,856
<u>Capital Projects Fund:</u>	
Permanent Improvement Fund	17,972
<u>Internal Service Fund:</u>	
Self Insurance Fund	205,471

FINDING NUMBER 2005-002 (Continued)

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Official's Response: To the best of my knowledge citation 2005-02 has been corrected during FY2006.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

FINDING NUMBER 2005-003 (Continued)

During fiscal year 2005, 77% of expenditures tested were not certified by the Treasurer prior to the purchase commitment being made. It was also found that none of the three exceptions above were utilized for the items found to be in noncompliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend the Treasurer certify the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

Official's Response: The District is always in the process of overseeing that Purchase orders, Then & Now Certificates, Blanket and Super Blanket PO's have prior certification.

FINDING NUMBER 2005-004

Material Weakness

Capital Assets

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

We recommend the District:

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

Official's Response: The District is looking into hiring an appraisal company to tag, set up a comprehensive written capital asset policy and to maintain and control capital assets properly

FINDING NUMBER 2005-005

Reportable Condition

Purchasing Cycle Controls

During testing of controls over the purchasing cycle, we noted the following:

- 76% of the transactions tested had purchase orders that were not manually signed, initialed, or dated, to indicate proper review of account codes and to certify the availability of funds;
- 23% of transactions tested did not have an approved requisition attached to the purchase to indicate building principal approval prior to submission to the Superintendent's office;
- 33% of transactions tested had invoices and/or purchase orders that were not marked 'ok to pay' to indicate that the goods or services had been received and agreed to the invoice;
- 3% of transactions tested did not have a 'Voucher For Warrant Check' sheet attached and checkmarked to indicate the agreement of the voucher packet information to the computer system; and
- 28% of transactions tested had invoices that were not stamped 'Paid' to prevent duplicate payment.

We recommend the following controls be implemented for every transaction to prevent unrecognized errors that could result in the misstatement of the District's records:

- Because purchase orders are automatically printed with the Superintendent and Treasurer's signatures on them, the Superintendent and Treasurer should manually sign or date purchase orders to indicate that they have been properly reviewed;
- Requisitions should be completed and properly approved as they are used;
- 'Ok to pay' should be written on either the purchase order or the invoice to indicate the goods have been received and that payment should be issued;
- A 'Voucher For Warrant Check' sheet should be completed for each expenditure so it can be checkmarked to indicate the information on the purchase order and invoice agree to what has been entered into the computer for payment; and
- Each invoice should be stamped 'Paid' to prevent duplicate payment.

Official's Response: To the best of my knowledge Purchase Order cycle and processing to bill paying is being corrected

FINDING NUMBER 2005-006

Reportable Condition

Intergovernmental Revenue Controls

During testing of controls over intergovernmental revenues, we noted the following:

- 42% of receipts tested were not signed or initialed by the Treasurer to indicate review;
- 18% of receipts tested did not have a checkmark on the receipt to prevent duplicate posting; and
- 15% of receipts tested did not have supporting documentation attached to the receipt.

FINDING NUMBER 2005-006 (Continued)

Reportable Condition (Continued)

Intergovernmental Revenue Controls (Continued)

We recommend the following controls be implemented for every revenue transaction to prevent unrecognized errors that could result in the misstatement of the District's records:

- Each receipt should be signed or initialed by the Treasurer to indicate the account coding has been properly reviewed;
- A checkmark should be placed on each receipt after it has been entered into the system to prevent duplicate entry; and
- Supporting documentation should be included with each receipt to ensure the proper amount has been entered into the system and to aid in proper account coding.

Official's Response: Signatures on receipts and supporting documentation. Have been corrected

3. FINDINGS FOR FEDERAL AWARDS	
Finding Number:	2005-007
CFDA Title and Number:	Special Education-Grants To States / 84.027
Federal Award Number / Year:	044776-6B-SF-2005
Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Ohio Department of Education

Reportable Condition

Retention of Records

The Project Cash Request (PCR) form is submitted periodically when the District requests federal funds from the Ohio Department of Education (ODE). The District is to enter total expenditures from the grant fund as recorded on their records to show that cash requested is based on realistic cash needs.

During testing of the Special Education grant, we found that, while the cash requested appeared to be based on realistic cash needs, there was no information retained to support the total expenditure amounts reported to ODE for five of the nine PCR's submitted by the District. The PCR's were usually submitted to the ODE a few days prior to the end of a month or a few days after the beginning of a month. As a result, the total expenditures on the reports did not equal the month end totals. The Treasurer did not print out a paper copy or save an electronic copy of the District's total expenditures on the date the PCR's were prepared and submitted.

The District should retain information to support the amount entered on the online PCR form. Specifically, the District should keep a copy of their expenditure ledger, or some form of summary report, that shows the expenditures when the PCR form was completed and that it agrees to the total expenditures amount on the PCR form.

Official's Response and Corrective Action Plan: Supporting documentation for PCR's are in place

Finding Number:	2005-008
CFDA Title and Number:	Special Education-Grants To States / 84.027
Federal Award Number / Year:	044776-6B-SF-2005
Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Ohio Department of Education

Reportable Condition

Review of Special Education Grant Monthly Activity Reports

During the control and substantive testing of Allowable Cost/Cost Principals, Period of Availability and Reporting for the Special Education grant, we noted the following:

- The Grant Coordinator received monthly reports for the Special Education grant, but the reports were not check marked, initialed or signed to indicate review;
- The budget for fringe benefits was originally overspent by \$34,414.51 as of June 30, 2005, but was corrected by numerous adjustments in July and August 2005;
- Several negative expenditure adjustments were made during the period of availability (90 days after fiscal year for this grant); and
- No detailed support was provided for the adjustments other than an explanation the grant was overspent and a report showing where the adjustment was taken from and where it was placed (from the Special Education grant fund to the General Fund).

We recommend the following controls and procedures be put in place to help ensure the accuracy of financial information submitted to ODE regarding the Special Education grant:

- The Grant Coordinator should initial or sign the monthly reports she receives from the Treasurer to indicate she has reviewed the information;
- The Treasurer should more closely monitor the expenditures during the year by comparing the amount spent per object code in the District's expenditure ledger to the object code's budget as approved by ODE so there is no need to make adjustments in the subsequent audit period to correct overspending;
- The Treasurer should initial or sign the monthly reports she sends to the Grant Coordinator to indicate review. Furthermore, because the Treasurer prepares the financial reports, she should closely monitor the spending of the grant during the fiscal year. If she properly and closely monitors the activity during the fiscal year, the need to make numerous adjustments after the fiscal year end would be alleviated;
- Detailed supporting documentation should be retained when adjustments need to be made to support the exact amount of the adjustment, such as the amount of payroll and fringe benefits, along with the teacher and aide names, that was taken from the Special Revenue grant fund and put into the General Fund.

Official's Response and Corrective Action Plan: We are in process for correcting this citation

Finding Number:	2005-009
CFDA Title and Number:	Food Donation / 10.550
Federal Award Number / Year:	N/A / 2005
Federal Agency:	U.S. Department of Agriculture
Pass-Through Agency:	Ohio Department of Education

Noncompliance

The “Ohio’s Donated Food Distribution Program Manual” (revised March 2003) explains requirements of donated food distribution program including inventory valuation and storage requirements.

The District receives commodities each month which are delivered to Shelby Senior High and are stored there until needed at the High School or one of the other schools of the District. The following deficiencies were noted when reviewing the commodity inventory:

- The commodities are valued at the USDA unit cost instead of market value.
- The commodities are transferred to the individual schools when needed; however, when they are transferred, the value of the transferred commodities are added to the inventory of the receiving site, but they are not subtracted from the inventory of the sending site.
- The District did not maintain any logs to document the refrigerator and freezer thermometers were checked daily during the summer.

These deficiencies caused the District’s inventory of commodities to be misstated. To correct these deficiencies, we recommend the following:

- The donated foods should be valued at the local wholesale price, which is usually obtained from the vendor.
- When commodities are transferred to the individual schools from the Senior High, the value of the transferred commodities should be added to the inventory of the receiving site and should be subtracted from the inventory of the sending site to avoid recording the receipt of the same inventory twice.
- The District should maintain a log documenting the temperature of the refrigerator and freezer thermostats during the summer.

Official’s Response and Corrective Action Plan: The accounting of commodities is being corrected this Fiscal year. Logs will be maintained to document the refrigerator and freezer thermometers

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-01	ORC 5705.10 – The District had negative cash balances at June 30, 2004.	No	Not Corrected. See Finding Number 2005-002.
2004-02	ORC 5705.36 – The District did not file the certificate of the total amount from all sources available for expenditure and balances with the County Auditor.	Yes	Finding No Longer Valid.
2004-03	ORC 5705.36 – The District did not amend their certificate of estimated resources correctly.	No	Partially Corrected. See Noncompliance citation in the Management Letter.
2004-04	ORC 5705.39 – The Treasurer did not file the annual appropriation measure with the County Auditor.	No	Not Corrected. See Finding Number 2005-001.
2004-05	ORC 5705.41(B) – The District had expenditures exceeding appropriations.	No	Partially Corrected. See Noncompliance citation in the Management Letter.
2004-06	ORC 5705.14, 2705.15 and 5705.16 – The District had illegal transfers.	No	Partially Corrected. See Noncompliance citation in the Management Letter.
2004-07	34 CFR, Subpart C, Section 80.20(b)(1) – The District had 5 project cash requests that did not have supporting documentation.	No	Not Corrected. See Finding Number 2005-007.
2004-08	34 CFR 300.347 – The District had 40 IEP's that were not completed properly.	No	Partially Corrected. See Recommendation in the Management Letter.
2004-09	The amounts reported in the final expenditure report did not agree with amounts recorded in the expenditure ledger, which resulted in a questioned cost of \$3,918.72.	No	Not Corrected. See Finding Number 2005-008.
2004-10	Transfers were made from the Special Education Fund to the General Fund with no supporting documentation, resulting in a questioned cost of \$241,335.04.	Yes	Finding No Longer Valid.
2004-11	A transfer was made from the Innovative Education Program to the General Fund with no supporting documentation, resulting in a questioned cost of \$11,635.60.	Yes	Finding No Longer Valid.

Shelby City School District
 Richland County
 Schedule of Prior Audit Findings and Questioned Costs
 Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-12	Transfers were made from the Class Size Reduction Program to the General Fund with no supporting documentation, resulting in a questioned cost of \$60,821.62.	Yes	Finding No Longer Valid.
2004-13	The District had various weaknesses relating to the Standards for Financial Management Systems.	No	Not Corrected. See Finding Number 2005-007 and Number 2005-008.



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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
OCTOBER 12, 2006**