



Mary Taylor, CPA
Auditor of State

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the 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, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, as of June 30, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As further described in Note 3.A. to the basic financial statements, the District restated its July 1, 2008 nonmajor governmental fund balance and governmental activities net assets to reclass the business-type activities and enterprise funds to governmental funds.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 8, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

The management's discussion and analysis of the Shelby City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net assets of governmental activities increased \$1,529,106 which represents a 33.26% increase from 2008.
- General revenues accounted for \$17,779,443 in revenue or 83.56% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,497,483 or 16.44% of total revenues of \$21,276,926.
- The District had \$19,747,820 in expenses related to governmental activities; only \$3,497,483 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,779,443 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had \$18,699,200 in revenues and other financing sources and \$17,579,364 in expenditures. During fiscal year 2009, the general fund's fund balance increased \$1,119,836 from a balance of \$2,443,506 to a balance of \$3,563,342.

Using these Basic Financial Statements

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

The *Statement of Net 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 as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is the only major fund.

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 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all (non-fiduciary) 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 will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

These two statements report the District's *net assets* and changes in those net assets. This change in net assets is important because it tells the reader that, for the 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 governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Fund

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 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. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Assets, liabilities and net assets at June 30, 2008 have been restated, as described in Note 3.A. of the notes to the basic financial statements. The table below provides a summary of the District's net assets for fiscal year 2009 compared to fiscal year 2008.

	Net Assets	
	<u>Governmental Activities</u>	
	<u>2009</u>	<u>(Restated) 2008</u>
<u>Assets</u>		
Current and other assets	\$ 12,129,987	\$ 12,125,071
Capital assets, net	<u>2,951,938</u>	<u>2,601,757</u>
Total assets	<u>15,081,925</u>	<u>14,726,828</u>
<u>Liabilities</u>		
Current liabilities	6,878,919	8,123,533
Long-term liabilities	<u>2,075,896</u>	<u>2,005,291</u>
Total liabilities	<u>8,954,815</u>	<u>10,128,824</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,337,798	2,076,757
Restricted	475,676	746,682
Unrestricted	<u>3,313,636</u>	<u>1,774,565</u>
Total net assets	<u>\$ 6,127,110</u>	<u>\$ 4,598,004</u>

Net assets increased \$1,529,106 or 33.26%, mainly due to an increase in grants and entitlements.

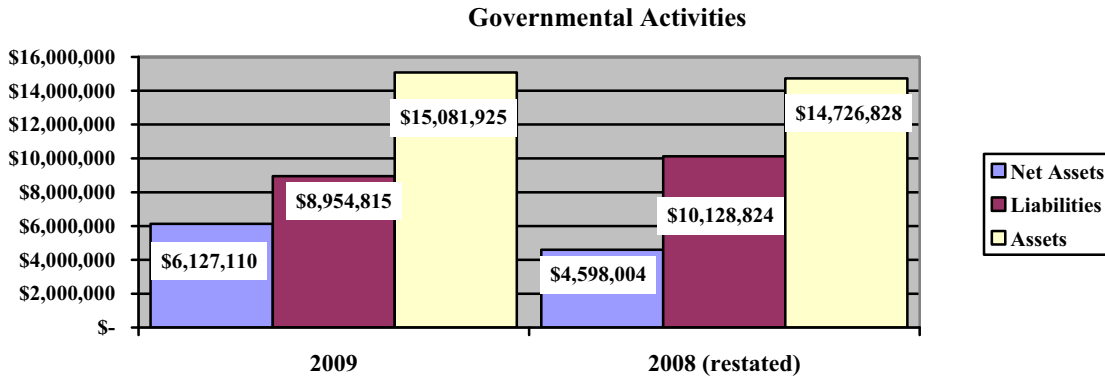
At year end, capital assets represented 19.57% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$2,337,798. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$475,676, represents resources that are subject to external restriction on how they may be used.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

The graph below shows the District's assets, liabilities and net assets at June 30, 2008 and 2009:



The table below shows the changes in net assets for governmental activities for fiscal year 2009 compared to fiscal year 2008. Refer to Note 3.A. to the basic financial statements for detail on the fund reclassification and restatement of net assets at the beginning of the fiscal year.

	Change in Net Assets	
	Governmental Activities	
	<u>2009</u>	<u>(Restated) 2008</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,253,511	\$ 1,190,233
Operating grants and contributions	2,206,768	3,143,535
Capital grants and contributions	37,204	9,136
General revenues:		
Property taxes	5,709,645	7,193,167
Income taxes	2,449,991	2,432,914
Grants and entitlements not restricted	9,266,343	8,056,952
Investment earnings	93,788	182,027
Miscellaneous	<u>259,676</u>	<u>76,260</u>
Total revenues	<u>21,276,926</u>	<u>22,284,224</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

	Governmental Activities	
	2009	(Restated) 2008
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,492,381	\$ 8,205,596
Special	2,185,411	2,050,730
Vocational	202,358	166,507
Other	5,374	-
Support services:		
Pupil	754,651	866,240
Instructional staff	1,465,643	1,213,173
Board of education	76,215	34,691
Administration	1,295,619	1,256,975
Fiscal	773,708	715,661
Business	12,576	-
Operations and maintenance	1,568,343	1,802,780
Pupil transportation	995,101	790,438
Central	60,367	50,467
Operation of non-instructional services	177,962	63,188
Food service operations	978,654	963,655
Extracurricular activities	637,942	633,564
Interest and fiscal charges	65,515	62,840
Total expenses	19,747,820	18,876,505
Extraordinary item:		
Insurance proceeds	-	1,072,309
Changes in net assets	1,529,106	4,480,028
Net assets at beginning of year (restated)	4,598,004	117,976
Net assets at end of year	\$ 6,127,110	\$ 4,598,004

Governmental Activities

Net assets of the District's governmental activities increased \$1,529,106. Total governmental expenses of \$19,747,820 were offset by program revenues of \$3,497,483 and general revenues of \$17,779,443. Program revenues supported 17.71% of the total governmental expenses.

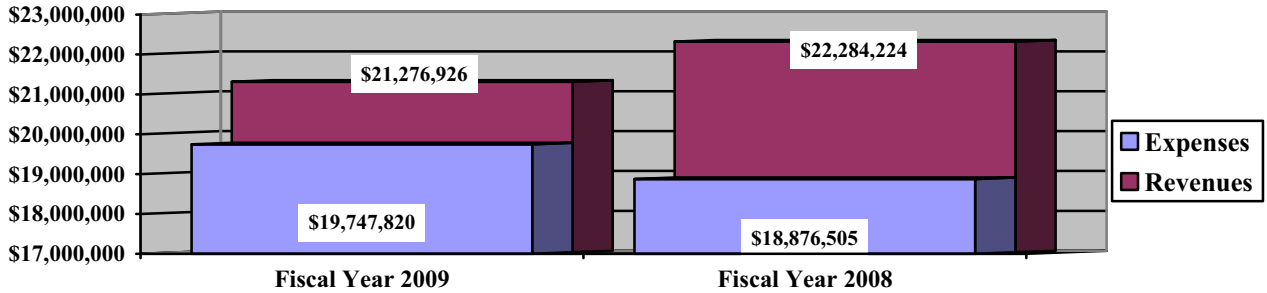
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These revenue sources represent 81.90% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2009 and 2008.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2009 and 2008. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Certain amounts for 2008 have been restated. Refer to Note 3.A. to the basic financial statements for detail on the fund reclassification and restatement of net assets at the beginning of the fiscal year.

Governmental Activities

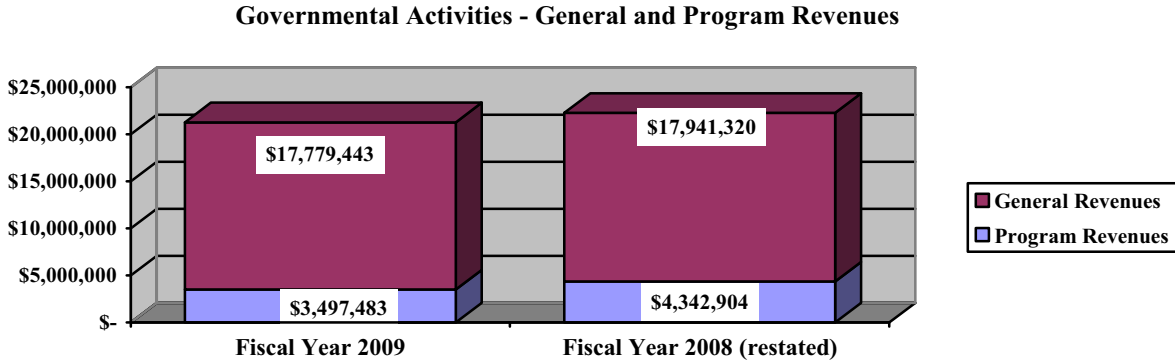
	Total Cost of Services 2009	Net Cost of Services 2009	(Restated) Total Cost of Services 2008	(Restated) Net Cost of Services 2008
Program expenses:				
Instruction:				
Regular	\$ 8,492,381	\$ 7,866,398	\$ 8,205,596	\$ 7,392,059
Special	2,185,411	1,350,664	2,050,730	1,047,318
Vocational	202,358	160,512	166,507	162,729
Other	5,374	5,374	-	-
Support services:				
Pupil	754,651	640,886	866,240	778,695
Instructional staff	1,465,643	989,366	1,213,173	623,704
Board of education	76,215	76,215	34,691	33,927
Administration	1,295,619	1,279,248	1,256,975	1,200,416
Fiscal	773,708	773,708	715,661	699,800
Business	12,576	12,576	-	-
Operations and maintenance	1,568,343	1,568,343	1,802,780	1,752,071
Pupil transportation	995,101	886,101	790,438	343,769
Central	60,367	56,751	50,467	42,407
Operation of non-instructional services	177,962	35,723	63,188	(90,271)
Food service operations	978,654	(24,846)	963,655	10,544
Extracurricular activities	637,942	507,803	633,564	473,593
Interest and fiscal charges	65,515	65,515	62,840	62,840
Total expenses	\$ 19,747,820	\$ 16,250,337	\$ 18,876,505	\$ 14,533,601

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, as 86.20% of instruction activities in fiscal year 2009 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.29% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2009 and 2008.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,981,795, which is \$833,614 more than last year's total of \$3,148,181. Fund balance of the other governmental funds has been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance <u>June 30, 2009</u>	Restated Fund Balance <u>June 30, 2008</u>	Increase <u>(Decrease)</u>
General	\$ 3,563,342	\$ 2,443,506	\$ 1,119,836
Other governmental	<u>418,453</u>	<u>704,675</u>	<u>(286,222)</u>
Total	<u>\$ 3,981,795</u>	<u>\$ 3,148,181</u>	<u>\$ 833,614</u>

General Fund

The District's general fund balance increased \$1,119,836. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,060,061	\$ 9,348,706	(13.78) %
Earnings on investments	84,438	172,787	(51.13) %
Intergovernmental	9,701,714	9,103,013	6.58 %
Other revenues	<u>630,158</u>	<u>628,402</u>	0.28 %
Total	<u>\$ 18,476,371</u>	<u>\$ 19,252,908</u>	(4.03) %
<u>Expenditures</u>			
Instruction	\$ 10,417,741	\$ 10,276,325	1.38 %
Support services	6,240,187	6,730,526	(7.29) %
Extracurricular activities	420,281	413,659	1.60 %
Capital outlay	222,829	-	100.00 %
Debt service	<u>278,326</u>	<u>246,881</u>	12.74 %
Total	<u>\$ 17,579,364</u>	<u>\$ 17,667,391</u>	(0.50) %

Revenues of the general fund decreased slightly during the fiscal year primarily due to the decrease in tax revenue and the decrease in earnings on investments. Tax revenue decreased from HB 66, which phases out the tax on tangible personal property of general businesses. The District is reimbursed for this lost revenue from the State, which is the primary reason intergovernmental revenues increased 6.58% from the prior year. This reimbursement will be phased out in calendar years 2011-2017. The decrease in interest earnings is primarily due to decreased interest rates. Expenditures increased slightly during the year primarily due to increases in the expenditures of capital outlay and debt service. Capital outlay and debt service expenditures increased because the District entered into a capital lease for copier equipment during the current fiscal year.

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 2009, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other sources were \$18,387,480, which was lower than the original budgeted revenues and other sources estimate of \$18,616,000. Actual revenues and other sources for fiscal year 2009 were \$18,620,539. This represents a \$233,059 increase over final budgeted revenues. This increase is primarily due to an increase in tax and intergovernmental State revenue.

General fund original appropriations of \$18,607,708 were decreased to \$18,162,157 in the final appropriations. The actual budget basis expenditures for fiscal year 2009 totaled \$17,918,453, which was \$243,704 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the District had \$2,951,938 invested in land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. The District reclassified the capital assets of the nonmajor enterprise funds as described in Note 3.A. to the basic financial statements. The following table shows fiscal year 2009 balances compared to 2008:

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

	Governmental Activities	
	2009	(Restated) 2008
Land	\$ 348,364	\$ 348,364
Land improvements	215,531	237,347
Buildings and building improvements	1,324,613	1,116,823
Furniture, fixtures and equipment	522,286	330,844
Vehicles	342,588	320,278
Textbooks	198,556	248,101
Total	\$ 2,951,938	\$ 2,601,757

The overall increase in capital assets is due to capital outlays of \$703,076 exceeding depreciation expense of \$352,895 in the current period.

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

Debt Administration

At June 30, 2009, the District had \$194,140 in a capital lease obligation and \$420,000 in energy conservation bonds outstanding. Of this total, \$145,890 is due within one year and \$468,250 is due in more than one year. The following table summarizes the bonds and capital lease obligation outstanding.

Outstanding Long-Term Debt at June 30

	Governmental Activities 2009	Governmental Activities 2008
Energy conservation bonds	\$ 420,000	\$ 525,000
State of Ohio bankruptcy loan	-	78,593
Capital lease obligation	194,140	-
Total	\$ 614,140	\$ 603,593

In addition, the District had \$430,000 in notes payable for short-term tax anticipation notes.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

At June 30, 2009, the District's overall legal debt margin was \$18,605,071 with an unvoted debt margin of \$211,390.

See Note 12 to the basic financial statements for additional information on the District's debt administration.

Current Issues Affecting Financial Condition

During fiscal year 2008, the District was released from fiscal emergency. In the spring of 2009, negotiations on new contracts for certified and classified staff were completed. The certified staff received a three year contract with 2% increases in 2010 and 2011 with a re-opener for 2012. The classified contract specifies 2% increases in all three years.

The Shelby City School District has faced serious financial challenges over the past several years. The board and staff are optimistic about the District's ability to move forward in a fiscally responsible manner while continuing to provide an education of which the community, students and staff can be proud.

Contacting the School District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,346,703
Cash and cash equivalents with fiscal agent.	13,184
Receivables:	
Property taxes	5,331,243
Income taxes	799,406
Accounts	10,653
Intergovernmental	455,610
Accrued interest	3,200
Prepayments	89,387
Materials and supplies inventory	80,601
Capital assets:	
Land.	348,364
Depreciable capital assets, net	2,603,574
Total capital assets, net	<u>2,951,938</u>
 Total assets.	 <u>15,081,925</u>
Liabilities:	
Accounts payable.	170,632
Accrued wages payable	1,449,118
Pension obligation payable.	403,537
Intergovernmental payable	188,105
Unearned revenue.	4,016,036
Accrued interest payable	3,013
Notes payable	430,000
Claims payable.	218,478
Long-term liabilities:	
Due within one year.	389,971
Due in more than one year	1,685,925
 Total liabilities	 <u>8,954,815</u>
Net assets:	
Invested in capital assets, net of related debt.	2,337,798
Restricted for:	
Capital projects.	159,278
Locally funded programs	22,818
State funded programs	41,859
Federally funded programs	12,396
Student activities	73,535
Other purposes	165,790
Unrestricted.	<u>3,313,636</u>
 Total net assets	 <u>\$ 6,127,110</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 8,492,381	\$ 422,317	\$ 203,666	\$ -	\$ (7,866,398)
Special	2,185,411	-	834,747	-	(1,350,664)
Vocational	202,358	-	41,846	-	(160,512)
Other	5,374	-	-	-	(5,374)
Support services:					
Pupil	754,651	98,345	15,420	-	(640,886)
Instructional staff	1,465,643	-	476,277	-	(989,366)
Board of education	76,215	-	-	-	(76,215)
Administration	1,295,619	7,082	9,289	-	(1,279,248)
Fiscal	773,708	-	-	-	(773,708)
Business	12,576	-	-	-	(12,576)
Operations and maintenance	1,568,343	-	-	-	(1,568,343)
Pupil transportation	995,101	32,693	39,103	37,204	(886,101)
Central	60,367	-	3,616	-	(56,751)
Operation of non-instructional services					
Food service operations	177,962	7,251	134,988	-	(35,723)
Extracurricular activities	978,654	555,684	447,816	-	24,846
Interest and fiscal charges	637,942	130,139	-	-	(507,803)
Interest and fiscal charges	65,515	-	-	-	(65,515)
Totals	\$ 19,747,820	\$ 1,253,511	\$ 2,206,768	\$ 37,204	(16,250,337)

General revenues:

Property taxes levied for:	
General purposes	5,469,820
Capital outlay	239,825
Income taxes levied for general purposes	2,449,991
Grants and entitlements not restricted	
to specific programs	9,266,343
Investment earnings	93,788
Miscellaneous	259,676
Total general revenues	17,779,443
Change in net assets	1,529,106
Net assets at beginning of year (restated)	4,598,004
Net assets at end of year	\$ 6,127,110

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,890,357	\$ 526,287	\$ 4,416,644
Receivables:			
Property taxes	5,091,337	239,906	5,331,243
Income taxes	799,406	-	799,406
Accounts	10,599	54	10,653
Intergovernmental	356,158	99,452	455,610
Accrued interest	3,200	-	3,200
Interfund receivable.	17,591	-	17,591
Prepayments	89,387	-	89,387
Materials and supplies inventory	67,881	12,720	80,601
Restricted assets:			
Equity in pooled cash and cash equivalents.	46,426	-	46,426
Total assets	\$ 10,372,342	\$ 878,419	\$ 11,250,761
Liabilities:			
Accounts payable.	\$ 117,247	\$ 53,385	\$ 170,632
Accrued wages payable	1,309,683	139,435	1,449,118
Compensated absences payable	46,822	-	46,822
Early retirement incentive payable	11,999	-	11,999
Pension obligation payable.	364,125	39,412	403,537
Intergovernmental payable	175,574	12,531	188,105
Interfund payable	-	17,591	17,591
Accrued interest payable	1,311	-	1,311
Notes payable	430,000	-	430,000
Deferred revenue	516,925	16,890	533,815
Unearned revenue.	3,835,314	180,722	4,016,036
Total liabilities	6,809,000	459,966	7,268,966
Fund balances:			
Reserved for encumbrances	67,603	140,476	208,079
Reserved for materials and supplies inventory	67,881	12,720	80,601
Reserved for property tax unavailable for appropriation	939,686	44,278	983,964
Reserved for prepayments	89,387	-	89,387
Reserved for school bus purchases	46,426	-	46,426
Unreserved, undesignated, reported in:			
General fund	2,352,359	-	2,352,359
Special revenue funds.	-	178,224	178,224
Capital projects funds.	-	42,755	42,755
Total fund balances	3,563,342	418,453	3,981,795
Total liabilities and fund balances	\$ 10,372,342	\$ 878,419	\$ 11,250,761

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$	3,981,795
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,951,938
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	331,243	
Intergovernmental receivable		202,572	
Total			533,815
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.			678,339
In the statement of net assets, interest is accrued on outstanding bonds, whereas in governmental funds, interest is accrued when due.			(1,702)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation bonds		(420,000)	
Capital lease obligation		(194,140)	
Compensated absences payable		(1,402,935)	
Total			(2,017,075)
Net assets of governmental activities		\$	6,127,110

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 5,610,070	\$ 244,290	\$ 5,854,360
Income taxes	2,449,991	-	2,449,991
Transportation fees	31,685	-	31,685
Tuition.	334,857	-	334,857
Earnings on investments.	84,438	161	84,599
Charges for services	-	555,684	555,684
Extracurricular.	-	227,248	227,248
Classroom materials and fees	16,180	51,192	67,372
Other local revenues.	247,436	85,011	332,447
Intergovernmental - state	9,696,585	245,452	9,942,037
Intergovernmental - federal.	5,129	1,406,821	1,411,950
Total revenue	<u>18,476,371</u>	<u>2,815,859</u>	<u>21,292,230</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,199,708	390,966	8,590,674
Special.	1,985,419	263,986	2,249,405
Vocational.	227,240	-	227,240
Other	5,374	-	5,374
Support services:			
Pupil.	633,253	118,519	751,772
Instructional staff	891,759	614,027	1,505,786
Board of education	76,215	-	76,215
Administration.	1,287,927	17,561	1,305,488
Fiscal	769,385	6,794	776,179
Operations and maintenance.	1,647,530	213,093	1,860,623
Pupil transportation	880,579	72,960	953,539
Central.	53,539	5,756	59,295
Operation of non-instructional services.	-	177,755	177,755
Food service operations	-	1,000,063	1,000,063
Extracurricular activities.	420,281	143,537	563,818
Facilities acquisition and construction	-	77,064	77,064
Capital outlay	222,829	-	222,829
Debt service:			
Principal retirement	212,282	-	212,282
Interest and fiscal charges	66,044	-	66,044
Total expenditures	<u>17,579,364</u>	<u>3,102,081</u>	<u>20,681,445</u>
Excess of revenues over (under) expenditures.	<u>897,007</u>	<u>(286,222)</u>	<u>610,785</u>
Other financing sources:			
Capital lease transaction	222,829	-	222,829
Total other financing sources.	<u>222,829</u>	<u>-</u>	<u>222,829</u>
Net change in fund balances	1,119,836	(286,222)	833,614
Fund balances at beginning of year (restated).	<u>2,443,506</u>	<u>704,675</u>	<u>3,148,181</u>
Fund balances at end of year	<u>\$ 3,563,342</u>	<u>\$ 418,453</u>	<u>\$ 3,981,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds	\$	833,614
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 703,076	
Current year depreciation	(352,895)	
Total	352,895	350,181
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(144,715)	
Intergovernmental	120,061	
Total	(24,654)	(24,654)
 Repayments of the State of Ohio bankruptcy loan, energy conservation bonds and capital lease obligations are an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:		
Energy conservation bonds	105,000	
State of Ohio bankruptcy loan	78,593	
Capital lease obligation	28,689	
Total	212,282	212,282
 Proceeds of capital lease transactions are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(222,829)
 Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives payable, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(1,237)
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		529
 An internal service fund is used by management to charge the costs of medical insurance to individual funds and is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities.		
		381,220
Change in net assets of governmental activities	\$	1,529,106

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Property taxes	\$ 5,752,789	\$ 5,682,170	\$ 5,736,246	\$ 54,076
Income taxes	2,567,639	2,536,120	2,525,683	(10,437)
Tuition.	400,415	395,500	334,857	(60,643)
Transportation fees	38,978	38,500	30,018	(8,482)
Earnings on investments.	68,582	67,740	81,238	13,498
Classroom materials and fees	12,149	12,000	11,755	(245)
Other local revenues.	111,367	110,000	243,701	133,701
Intergovernmental - state	9,551,955	9,434,700	9,546,144	111,444
Total revenues	<u>18,503,874</u>	<u>18,276,730</u>	<u>18,509,642</u>	<u>232,912</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,800,090	8,589,377	8,303,394	285,983
Special.	2,083,909	2,034,011	2,021,674	12,337
Vocational.	175,445	171,244	237,594	(66,350)
Other	3,842	3,750	4,804	(1,054)
Support services:				
Pupil.	723,881	706,548	718,713	(12,165)
Instructional staff	867,993	847,209	893,741	(46,532)
Board of education	38,058	37,147	80,972	(43,825)
Administration.	1,424,422	1,390,315	1,354,924	35,391
Fiscal	759,745	741,553	709,066	32,487
Operations and maintenance.	2,054,017	2,004,835	1,843,511	161,324
Pupil transportation	737,255	719,602	834,839	(115,237)
Central.	49,946	48,750	53,539	(4,789)
Extracurricular activities.	425,408	415,222	423,150	(7,928)
Debt service:				
Principal retirement	398,127	388,594	388,594	-
Interest and fiscal charges	65,570	64,000	49,938	14,062
Total expenditures	<u>18,607,708</u>	<u>18,162,157</u>	<u>17,918,453</u>	<u>243,704</u>
Excess of revenues over (under) expenditures.	<u>(103,834)</u>	<u>114,573</u>	<u>591,189</u>	<u>476,616</u>
Other financing sources:				
Sale of assets	17,717	17,500	2,715	(14,785)
Refund of prior year expenditure.	94,409	93,250	108,182	14,932
Total other financing sources	<u>112,126</u>	<u>110,750</u>	<u>110,897</u>	<u>147</u>
Net change in fund balance	8,292	225,323	702,086	476,763
Fund balance at beginning of year	2,670,304	2,670,304	2,670,304	-
Prior year encumbrances appropriated. . .	333,918	333,918	333,918	-
Fund balance at end of year	<u>\$ 3,012,514</u>	<u>\$ 3,229,545</u>	<u>\$ 3,706,308</u>	<u>\$ 476,763</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 883,633
Cash with fiscal agent	13,184
Total assets	896,817
Liabilities:	
Claims payable	218,478
Total liabilities	218,478
Net assets:	
Unrestricted.	678,339
Total net assets	\$ 678,339

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 3,160,922
Total operating revenues	<u>3,160,922</u>
 Operating expenses:	
Claims expense	2,255,281
Purchased services	533,771
Total operating expenses	<u>2,789,052</u>
 Operating income	 <u>371,870</u>
 Nonoperating revenues:	
Interest revenue	<u>9,350</u>
 Total nonoperating revenues.	 <u>9,350</u>
 Change in net assets.	 381,220
 Net assets at beginning of year.	 <u>297,119</u>
Net assets at end of year.	<u><u>\$ 678,339</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

		Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from sales/charges for services	\$	3,160,922
Cash payments for contractual services		(533,771)
Cash payments for claims expenses		(2,168,554)
		458,597
Net cash provided by operating activities		458,597
Cash flows from investing activities:		
Interest received		9,350
		9,350
Net cash provided by investing activities		9,350
Net increase in cash and cash equivalents		467,947
Cash and cash equivalents at beginning of year.		428,870
Cash and cash equivalents at end of year	\$	896,817
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$	371,870
Changes in liabilities:		
Increase in claims payable		86,727
		86,727
Net cash provided by operating activities	\$	458,597

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 628,424	\$ 113,825
Investments in common stock	20,520	-
Investments in segregated accounts	180,640	-
Receivables:		
Accounts	-	2,523
Accrued interest	230	-
	829,814	-
Total assets	829,814	\$ 116,348
Liabilities:		
Accounts payable	-	\$ 4,126
Due to students	-	112,222
	-	-
Total liabilities	-	\$ 116,348
Net assets:		
Held in trust for scholarships	829,814	
Total net assets	\$ 829,814	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 15,739
Total additions.	15,739
Deductions:	
Investment loss.	56,712
Scholarships awarded	18,868
Other operating expense	1,607
Total deductions	77,187
Change in net assets	(61,448)
Net assets at beginning of year	891,262
Net assets at end of year.	\$ 829,814

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the District's three elementary schools, one middle school and one high school staffed by 105 classified employees and 144 certified full-time teaching personnel who provide services to 2,086 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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

JOINTLY GOVERNED ORGANIZATIONS

Pioneer Career and Technology Center (PCTC)

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

Metropolitan Educational Council (MEC)

The District participates in the MEC purchasing pool, which allows the District to purchase items at a discount. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases. The MEC is a distinct political subdivision of the State of Ohio operated under the direction of a 28 member Board consisting of one representative from each participating school district in Franklin County and one representative from each County outside of Franklin. To obtain financial information write to the Metropolitan Educational Council, Sue Ward, Fiscal Officer, 2100 Citygate Drive, Columbus, OH 43219.

Heartland Council of Governments/North Central Ohio Computer Cooperative (COG)

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

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "GRP") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

PROPRIETARY FUND

The proprietary fund is used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or 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 health 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 which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activity.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

C. Basis of Presentation and Measurement Focus

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund 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 activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2009, are recorded as deferred revenue.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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

Lapsing of Appropriations:

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

F. Cash and Cash Equivalents

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

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

During fiscal year 2009, investments were limited to STAR Ohio and donated common stock. The common stock is reported at fair value which is based on quoted market price.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2009.

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 2009 amounted to \$84,438, which includes \$31,741 assigned from other District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

G. Inventory

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$5,000 for general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2009, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. 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, prepayments, school bus purchase and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

M. Prepayments

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is primarily activity of the fund.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes consists of monies restricted by State statute for school bus purchases.

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

P. Estimates

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

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. There are no outstanding interfund transactions at June 30, 2009.

R. Restricted Assets

Restricted assets in the general fund represent monies restricted for school bus purchases. A schedule of the restricted asset is presented in Note 19.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have either type of transaction during fiscal year 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Reclassification and Restatement of Fund Balance and Net Assets

A fund reclassification is required to report funds previously reported as enterprise funds as nonmajor special revenue funds. The fees received by these funds are not designed to cover all costs associated with the operation of the funds. These funds are largely supported by intergovernmental grants and entitlements and should be reported as governmental funds rather than enterprise funds. This fund reclassification had the following effect on the District's governmental fund balances and enterprise fund net assets as previously reported:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>	<u>Enterprise Funds</u>
Fund balance/net assets as previously reported	\$ 2,443,506	\$ 703,110	\$ 3,146,616	\$ (34,992)
Fund reclassification:				
Net assets of nonmajor enterprise funds at June 30, 2008	-	(34,992)	(34,992)	34,992
Capital assets	-	(21,183)	(21,183)	-
Long-term liabilities	-	<u>57,740</u>	<u>57,740</u>	-
Net fund reclassification	<u>-</u>	<u>1,565</u>	<u>1,565</u>	<u>34,992</u>
Restated fund balance at July 1, 2008	<u>\$ 2,443,506</u>	<u>\$ 704,675</u>	<u>\$ 3,148,181</u>	<u>\$ -</u>

The fund reclassification had the following effect on the governmental activities and business-type activities net assets as previously reported:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets at June 30, 2008	\$ 4,624,677	\$ (26,673)
Fund reclassification	<u>(26,673)</u>	<u>26,673</u>
Restated net assets at July 1, 2008	<u>\$ 4,598,004</u>	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

C. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Food service	\$ 33,459
Ohio reads	9
Poverty aid	2,081

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals normally occur. The deficit fund balances for the nonmajor governmental funds resulted from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2009 was \$13,184.

B. Investments in Segregated Accounts

At fiscal year end, \$180,640 was on deposit with an escrow agent for monies held in relation to the W.H. & Ladye F. Moody Scholarship fund. This amount is included in the total amount of deposits reported below and is reported on the financial statements as “investments in segregated accounts”.

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$776,639. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2009, \$160,680 of the District’s bank balance of \$815,701 was exposed to custodial risk as discussed below, while \$655,021 was covered by the FDIC.

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

D. Investments

As of June 30, 2009, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
			<u>6 months or less</u>
STAR Ohio	\$ 5,312,313	\$	5,312,313
Common stock	20,520		-
Total	<u>\$ 5,332,833</u>	<u>\$</u>	<u>5,312,313</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 5,312,313	99.62
Common stock	<u>20,520</u>	<u>0.38</u>
Total	<u>\$ 5,332,833</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 776,639
Investments	5,332,833
Investments in segregated accounts	180,640
Cash with fiscal agent	<u>13,184</u>
Total	<u>\$ 6,303,296</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 5,359,887
Private-purpose trust fund	829,584
Agency funds	<u>113,825</u>
Total	<u>\$ 6,303,296</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS

Interfund loans receivable/payable consisted of the following at June 30, 2009, as reported on the fund financial statements:

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

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, 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 property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$939,686 in the general fund and \$44,278 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2008 was \$1,065,862 in the general fund and \$45,218 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 203,298,550	91.12	\$ 205,683,710	92.64
Public utility personal	5,887,770	2.64	5,908,990	2.66
Tangible personal property	<u>13,920,753</u>	<u>6.24</u>	<u>10,440,565</u>	<u>4.70</u>
Total	<u>\$ 223,107,073</u>	<u>100.00</u>	<u>\$ 222,033,265</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$49.80		 \$49.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:

Property taxes	\$ 5,331,243
Income taxes	799,406
Accounts	10,653
Intergovernmental	455,610
Accrued interest	<u>3,200</u>
Total	<u>\$ 6,600,112</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 8 - INCOME TAX

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

NOTE 9 - CAPITAL ASSETS

Capital assets of the governmental activities have been restated by \$21,183 at July 1, 2008 to include the capital assets of the business-type activities that have been reclassified into the governmental activities (See Note 3.A. for detail). Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

	Restated Balance <u>07/01/08</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/09</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 348,364	\$ -	\$ -	\$ 348,364
Total capital assets, not being depreciated	<u>348,364</u>	<u>-</u>	<u>-</u>	<u>348,364</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,567,399	46,218	-	1,613,617
Buildings and building improvements	6,587,554	277,771	-	6,865,325
Furniture, fixtures and equipment	1,221,252	304,441	-	1,525,693
Vehicles	1,149,635	73,646	-	1,223,281
Textbooks	1,285,113	1,000	-	1,286,113
Total capital assets, being depreciated	<u>11,810,953</u>	<u>703,076</u>	<u>-</u>	<u>12,514,029</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,330,052)	(68,034)	-	(1,398,086)
Buildings and building improvements	(5,470,731)	(69,981)	-	(5,540,712)
Furniture, fixtures and equipment	(890,408)	(112,999)	-	(1,003,407)
Vehicles	(829,357)	(51,336)	-	(880,693)
Textbooks	(1,037,012)	(50,545)	-	(1,087,557)
Total accumulated depreciation	<u>(9,557,560)</u>	<u>(352,895)</u>	<u>-</u>	<u>(9,910,455)</u>
Governmental activities capital assets, net	<u>\$ 2,601,757</u>	<u>\$ 350,181</u>	<u>\$ -</u>	<u>\$ 2,951,938</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 160,889
Vocational	4,019
<u>Support services:</u>	
Instructional staff	3,572
Administration	5,767
Fiscal	1,899
Business	12,576
Operation and maintenance of plant	23,662
Pupil transportation	62,334
Central	1,072
Extracurricular	74,653
Food service operations	<u>2,452</u>
Total depreciation expense	<u>\$ 352,895</u>

NOTE 10 - NOTES PAYABLE

	Balance Outstanding 06/30/08	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding 06/30/09	Amounts Due in One Year
Governmental activities:					
Tax anticipation notes	\$ 635,000	\$ -	\$ (205,000)	\$ 430,000	\$ 210,000

The five year tax anticipation notes were issued July 28, 2005 and were used to pay operating expenditures of the District until the tax levy collections began. The tax anticipation notes will be paid from the general fund and have an interest rate of 4.35 percent. The notes are being repaid with income tax revenue and are therefore presented on the balance sheet. Principal and interest requirements to retire tax anticipation note obligations outstanding at June 30, 2009 are as follows:

Fiscal Year Ending June 30,	<u>Tax Anticipation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 210,000	\$ 14,138	\$ 224,138
2011	<u>220,000</u>	<u>4,785</u>	<u>224,785</u>
Total	<u>\$ 430,000</u>	<u>\$ 18,923</u>	<u>\$ 448,923</u>

NOTE 11 - CAPITALIZED LEASE - LESSEE DISCLOSURE

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 11 - CAPITALIZED LEASE - LESSEE DISCLOSURE – (Continued)

Capital assets consisting of equipment have been capitalized in the amount of \$222,829 in the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2009 was \$13,927 leaving a current book value of \$208,902. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2009 totaled \$28,689 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2009:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 54,943
2011	54,943
2012	54,944
2013	54,943
2014	<u>9,158</u>
Total minimum lease payments	228,931
Less: amount representing interest	<u>(34,791)</u>
Total	<u>\$ 194,140</u>

NOTE 12 - LONG-TERM OBLIGATIONS

Long-term obligations of the governmental activities have been restated by \$57,740 at July 1, 2008 to include the long-term obligations of the business-type activities that have been reclassified into the governmental activities (See Note 3.A. for detail). The changes in the District's long-term obligations during fiscal year 2009 consist of the following:

	Restated Balance Outstanding <u>07/01/08</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/09</u>	Amounts Due in One Year
Governmental activities:					
Energy conservation bonds	\$ 525,000	\$ -	\$ (105,000)	\$ 420,000	\$ 105,000
State of Ohio bankruptcy loan	78,593	-	(78,593)	-	-
Capital lease obligation	-	222,829	(28,689)	194,140	40,890
Compensated absences	<u>1,479,364</u>	<u>227,749</u>	<u>(245,357)</u>	<u>1,461,756</u>	<u>244,081</u>
Total long-term obligations	<u>\$ 2,082,957</u>	<u>\$ 450,578</u>	<u>\$ (457,639)</u>	<u>\$ 2,075,896</u>	<u>\$ 389,971</u>

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

State of Ohio Bankruptcy Loan - The State of Ohio Bankruptcy loan is due to a local business filing for Chapter Eleven receivership. This loan was issued to provide money for District operations to help offset the loss of tax revenue due to the bankruptcy of the business. The loan was received in fiscal year 2002. Payments for this loan began in fiscal year 2007. The loan was paid in full during fiscal year 2009 with property tax revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences - Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Ending June 30.	Energy Conservation Bonds		
	Principal	Interest	Total
2010	\$ 105,000	\$ 21,420	\$ 126,420
2011	105,000	16,065	121,065
2012	105,000	10,710	115,710
2013	<u>105,000</u>	<u>5,355</u>	<u>110,355</u>
Total	<u>\$ 420,000</u>	<u>\$ 53,550</u>	<u>\$ 473,550</u>

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2009, are a voted debt margin of \$18,605,071 and an unvoted debt margin of \$211,390.

NOTE 13 - COMPENSATED ABSENCES

Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Classified employees receive one-fourth of the first 160 days of accrued but unused sick leave and one-third of any accrued but unused sick leave over 160 days to the maximum of 260 days. Certified employees are allowed one-fourth of accrued but unused sick leave, up to a severance pay maximum of sixty-six days.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 14 - 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 2009, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 2,500	\$ 51,371,130
Electronic Data Processing Equipment	250	1,469,800
Automobile Liability	250/500	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	2,000,000
Employer's Liability	-	2,000,000

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

For fiscal year 2009, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2A). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the District. The claims liability of \$218,478 reported in the internal service fund at June 30, 2009 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

	<u>Beginning</u>	<u>Claims</u>	<u>Claims</u>	<u>Ending</u>
	<u>Balance</u>	<u>and Changes</u>	<u>Payments</u>	<u>Balance</u>
		<u>in Estimates</u>		
2009	\$ 131,751	\$ 2,255,281	\$ (2,168,554)	\$ 218,478
2008	549,257	1,633,612	(2,051,118)	131,751

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 15 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$227,679, \$225,304 and \$250,774, respectively; 49.55 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 15 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$1,043,240, \$1,013,377 and \$997,889, respectively; 83.19 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$8,543 made by the District and \$26,108 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 16 - POSTEMPLOYMENT BENEFITS - (Continued)

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$152,737, \$151,355 and \$96,578, respectively; 49.55 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$18,785, \$16,234 and \$15,966, respectively; 49.55 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$80,249, \$77,952 and \$76,761, respectively; 83.19 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (e) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 702,086
Net adjustment for revenue accruals	(33,271)
Net adjustment for expenditure accruals	108,614
Net adjustment for other sources	111,932
Adjustment for encumbrances	<u>230,475</u>
GAAP basis	<u>\$ 1,119,836</u>

NOTE 18 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not party to legal proceedings.

NOTE 19 - STATUTORY RESERVES

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 offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

NOTE 19 - STATUTORY RESERVES - (Continued)

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2008	\$ (86,861)	\$ -
Current year set-aside requirement	324,771	324,771
Current year offset	-	(245,230)
Qualifying disbursements	<u>(256,229)</u>	<u>(185,502)</u>
Total	<u>\$ (18,319)</u>	<u>\$ (105,961)</u>
Balance carried forward to fiscal year 2010	<u>\$ (18,319)</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the fiscal year and prior fiscal years that reduced the textbooks/instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

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

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The balance in the monies restricted for school bus purchases was \$46,426 at June 30, 2009. This balance is reported as restricted equity in pooled cash and reserved fund balance.

A schedule of the restricted assets at June 30, 2009 follows:

Amounts restricted for bus purchase	\$ <u>46,426</u>
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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	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: School Breakfast Program	2009	10.553	\$68,588		\$68,588	
National School Lunch Program	2009	10.555	327,291	\$55,225	327,291	\$55,225
Total U.S. Department of Agriculture/Child Nutrition Cluster			<u>395,879</u>	<u>55,225</u>	<u>395,879</u>	<u>55,225</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	2009	84.010	263,568		239,505	
	2008		15,000		41,385	
Total Title I Grants to Local Educational Agencies			<u>278,568</u>		<u>280,890</u>	
Special Education - Grants to States	2009	84.027	382,716		402,078	
	2008		25,060		48,322	
	2005				2,494	
Total Special Education - Grants to States			<u>407,776</u>		<u>452,894</u>	
Safe and Drug-Free Schools and Communities - State Grants	2009	84.186	9,673		7,972	
	2008				229	
	2006				695	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>9,673</u>		<u>8,896</u>	
State Grants for Innovative Programs	2009	84.298	739		550	
	2008		1,965		2,525	
	2003				514	
Total State Grants for Innovative Programs			<u>2,704</u>		<u>3,589</u>	
Education Technology State Grants	2009	84.318	257		621	
Improving Teacher Quality State Grants	2009	84.367	106,817		111,238	
	2008				8,154	
Total Improving Teacher Quality State Grants			<u>106,817</u>		<u>119,392</u>	
Total U.S. Department of Education			<u>805,795</u>		<u>866,282</u>	
<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	105,326		261,741	
Totals			<u>\$1,307,000</u>	<u>\$55,225</u>	<u>\$1,523,902</u>	<u>\$55,225</u>

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the entitlement value.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 8, 2010 wherein we noted the District restated its July 1, 2008 nonmajor governmental fund balance and governmental activities net assets to reclass the business-type activities and enterprise funds to governmental funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

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

We noted a certain internal control matter that we reported to the District's management in a separate letter dated January 8, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the District's management in a separate letter dated January 8, 2010.

We intend this report solely for the information and use of the audit committee, management, and Board of Education. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 8, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Shelby City School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

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

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

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

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



Mary Taylor, CPA
Auditor of State

January 8, 2010

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program - CFDA # 10.553 National School Lunch Program - CFDA # 10.555 Improving Teacher Quality State Grants - CFDA #84.367 Disaster Grants – Public Assistance (Presidentially Declared Disasters) - CFDA #97.036
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Material Weakness – Capital Assets; The District did not maintain sufficient capital asset records to account for the impairment of its damaged capital assets, which resulted in a qualification of the auditor's opinion.	Yes	Finding No Longer Valid
2008-002	Significant Deficiency – Financial Statement Errors; Six financial statement errors were noted in the prior audit of which two were significant and were adjusted to the financial statements.	Yes	Finding No Longer Valid



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on August 19, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



Mary Taylor, CPA
Auditor of State

January 8, 2010



Mary Taylor, CPA
Auditor of State

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 11, 2010