



Dave Yost • Auditor of State

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Shelby City School District
Richland County
25 High School Avenue
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, 2010, 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, 2010, 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 26, 2011, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 26, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities increased \$298,505 which represents a 4.87% increase from 2009.
- General revenues accounted for \$16,942,662 in revenue or 81.18% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,927,967 or 18.82% of total revenues of \$20,870,629.
- The District had \$20,572,124 in expenses related to governmental activities; only \$3,927,967 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 \$16,942,662 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had \$18,241,563 in revenues and other financing sources and \$17,419,800 in expenditures. During fiscal year 2010, the general fund's fund balance increased \$821,763 from a balance of \$3,563,342 to a balance of \$4,385,105.

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 2010?" 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, 2010
(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, 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 accounted for medical and dental self-insurance through January 31, 2010. As of February 1, 2020, the District changed from self-insured to a fully insured consortium. The basic proprietary fund financial statements can be found on pages 20-21 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 22 and 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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 table below provides a summary of the District's net assets for 2010 and 2009.

	Net Assets	
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 12,571,006	\$ 12,129,987
Capital assets, net	<u>2,793,713</u>	<u>2,951,938</u>
Total assets	<u>15,364,719</u>	<u>15,081,925</u>
<u>Liabilities</u>		
Current liabilities	6,913,199	6,878,919
Long-term liabilities	<u>2,025,905</u>	<u>2,075,896</u>
Total liabilities	<u>8,939,104</u>	<u>8,954,815</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,325,463	2,337,798
Restricted	752,358	475,676
Unrestricted	<u>3,347,794</u>	<u>3,313,636</u>
Total net assets	<u>\$ 6,425,615</u>	<u>\$ 6,127,110</u>

Net assets increased \$298,505 or 4.87%, mainly due to an increase in grants and entitlements.

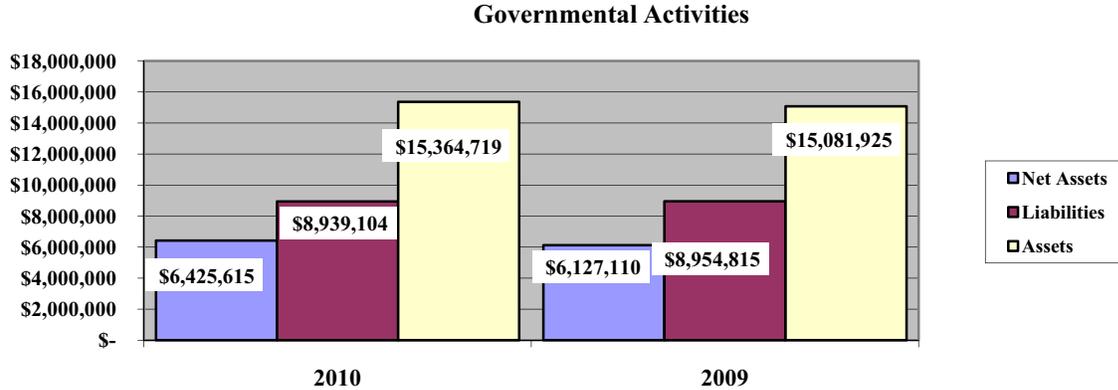
At year end, capital assets represented 18.18% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$2,325,463. 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, \$752,358, 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, 2010
(UNAUDITED)

The graph below shows the District's assets, liabilities and net assets at June 30, 2009 and 2010:



The table below shows the change in net assets for fiscal year 2010 and 2009.

	Change in Net Assets	
	Governmental Activities	
	<u>2010</u>	<u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,278,091	\$ 1,253,511
Operating grants and contributions	2,649,876	2,206,768
Capital grants and contributions	-	37,204
General revenues:		
Property taxes	5,149,994	5,709,645
Income taxes	2,307,421	2,449,991
Grants and entitlements not restricted	9,374,521	9,266,343
Investment earnings	14,690	93,788
Miscellaneous	96,036	259,676
Total revenues	<u>20,870,629</u>	<u>21,276,926</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,705,247	\$ 8,492,381
Special	2,382,012	2,185,411
Vocational	200,446	202,358
Other	17,352	5,374
Support services:		
Pupil	817,360	754,651
Instructional staff	1,607,070	1,465,643
Board of education	42,287	76,215
Administration	1,365,990	1,295,619
Fiscal	682,175	773,708
Business	12,906	12,576
Operations and maintenance	1,941,891	1,568,343
Pupil transportation	863,025	995,101
Central	105,759	60,367
Operation of non-instructional services		
Other non-instructional services	133,789	177,962
Food service operations	1,017,379	978,654
Extracurricular activities	630,265	637,942
Interest and fiscal charges	47,171	65,515
	<u>20,572,124</u>	<u>19,747,820</u>
Total expenses		
Changes in net assets	298,505	1,529,106
Net assets at beginning of year	6,127,110	4,598,004
Net assets at end of year	<u>\$ 6,425,615</u>	<u>\$ 6,127,110</u>

Governmental Activities

Net assets of the District's governmental activities increased \$298,505. Total governmental expenses of \$20,572,124 were offset by program revenues of \$3,927,967 and general revenues of \$16,942,662. Program revenues supported 19.09% of the total governmental expenses.

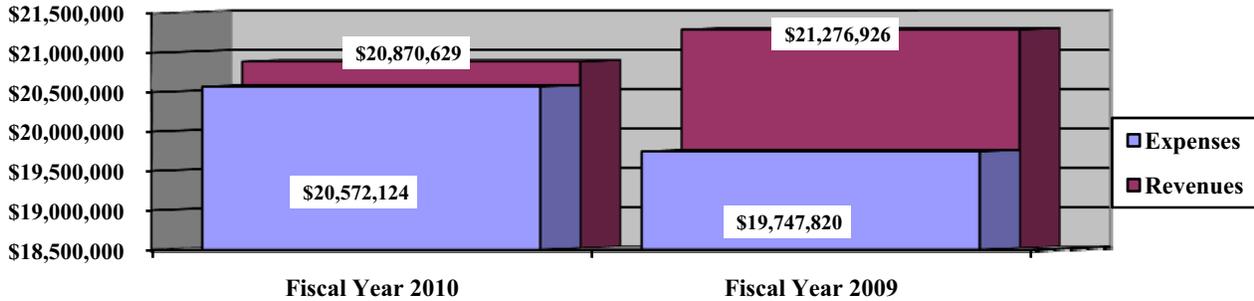
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These revenue sources represent 80.65% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2010 and 2009.

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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses:				
Instruction:				
Regular	\$ 8,705,247	\$ 7,676,594	\$ 8,492,381	\$ 7,866,398
Special	2,382,012	2,014,856	2,185,411	1,350,664
Vocational	200,446	158,271	202,358	160,512
Other	17,352	910	5,374	5,374
Support services:				
Pupil	817,360	709,793	754,651	640,886
Instructional staff	1,607,070	845,762	1,465,643	989,366
Board of education	42,287	42,287	76,215	76,215
Administration	1,365,990	1,360,837	1,295,619	1,279,248
Fiscal	682,175	682,175	773,708	773,708
Business	12,906	12,906	12,576	12,576
Operations and maintenance	1,941,891	1,766,093	1,568,343	1,568,343
Pupil transportation	863,025	796,768	995,101	886,101
Central	105,759	73,427	60,367	56,751
Operation of non-instructional services	133,789	(1,077)	177,962	35,723
Food service operations	1,017,379	(40,552)	978,654	(24,846)
Extracurricular activities	630,265	497,936	637,942	507,803
Interest and fiscal charges	47,171	47,171	65,515	65,515
Total expenses	\$ 20,572,124	\$ 16,644,157	\$ 19,747,820	\$ 16,250,337

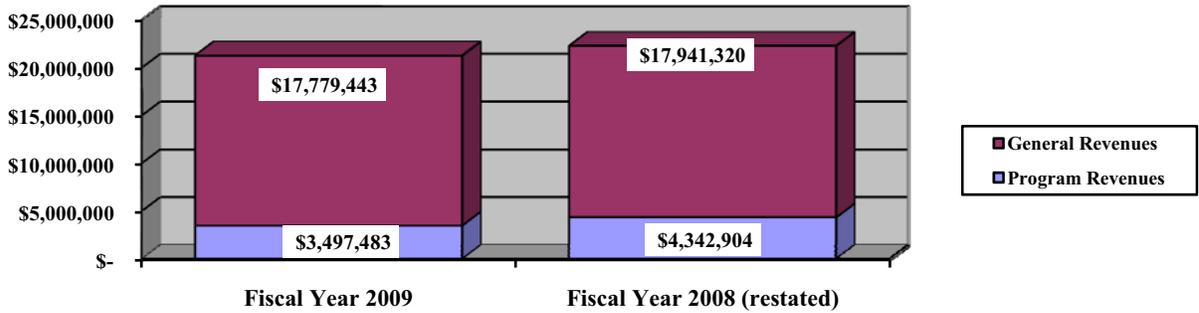
**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, as 87.13% of instruction activities in fiscal year 2010 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.91% 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 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,107,481, which is higher than last year's total of \$3,981,795. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance <u>June 30, 2010</u>	Fund Balance <u>June 30, 2009</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 4,385,105	\$ 3,563,342	\$ 821,763	23.06 %
Other Governmental	<u>722,376</u>	<u>418,453</u>	<u>303,923</u>	72.63 %
Total	<u>\$ 5,107,481</u>	<u>\$ 3,981,795</u>	<u>\$ 1,125,686</u>	28.27 %

General Fund

The District's general fund balance increased \$821,763. 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, 2010
(UNAUDITED)

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 7,122,880	\$ 8,060,061	(11.63) %
Earnings on investments	14,690	84,438	(82.60) %
Intergovernmental	9,548,900	9,701,714	(1.58) %
Other revenues	<u>532,431</u>	<u>630,158</u>	(15.51) %
Total	<u>\$ 17,218,901</u>	<u>\$ 18,476,371</u>	(6.81) %
<u>Expenditures</u>			
Instruction	\$ 10,363,686	\$ 10,417,741	(0.52) %
Support services	6,418,757	6,240,187	2.86 %
Extracurricular activities	437,121	420,281	4.01 %
Operation of non-instructional services	5,380	-	100.00 %
Capital outlay	-	222,829	(100.00) %
Debt service	<u>194,856</u>	<u>278,326</u>	(29.99) %
Total	<u>\$ 17,419,800</u>	<u>\$ 17,579,364</u>	(0.91) %

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 by the State. This reimbursement will be phased out in calendar years 2012-2017. The decrease in interest earnings is primarily due to decreased interest rates. Expenditures decreased slightly during the year primarily due to decreases in the expenditures of capital outlay and debt service. Capital outlay and debt service expenditures decreased since repairs and replacements needed after the August 2007 flood were completed in fiscal 2009 and debt service requirements declined when the last state advancements related to fiscal emergency were repaid fully during fiscal 2009. All other expenditure line items remained relatively consistent with prior 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 2010, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other sources were \$18,534,143, which were the same as the original budgeted revenues and other sources. Actual revenues and other sources for fiscal year 2010 were \$18,690,849. This represents a \$156,706 increase over final budgeted revenues. This increase is primarily due to an increase in tax revenues.

General fund original appropriations of \$18,399,091 were decreased to \$18,315,128 in the final appropriations. The actual budget basis expenditures for fiscal year 2010 totaled \$17,706,476, which was \$608,652 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, 2010
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$2,793,713 invested in land, land improvements, buildings and building improvement, furniture, fixtures and equipment, vehicles and textbooks. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009.

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

	Governmental Activities	
	2010	2009
Land	\$ 348,364	\$ 348,364
Land improvements	165,766	215,531
Buildings and building improvements	1,381,399	1,324,613
Furniture, fixtures and equipment	430,944	522,286
Vehicles	318,544	342,588
Textbooks	148,696	198,556
Total	\$ 2,793,713	\$ 2,951,938

The overall decrease in capital assets of \$158,225 is due to depreciation expense of \$329,802 and current year deletions (net of depreciation) of \$2,281 exceeding capital outlays of \$173,858.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2010, the District had \$153,250 in a capital lease obligation and \$315,000 in energy conservation bonds outstanding. Of this total, \$149,283 is due within one year and \$318,967 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 <u>2010</u>	Governmental Activities <u>2009</u>
Energy conservation bonds	\$ 315,000	\$ 420,000
Capital lease obligation	153,250	194,140
Total	\$ 468,250	\$ 614,140

In addition, the District had \$220,000 in notes payable for short-term tax anticipation notes.

At June 30, 2010, the District's overall legal debt margin was \$19,205,452 with an unvoted debt margin of \$216,894.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Current Issues Affecting Financial Condition

During fiscal year 2008, the District was released from fiscal emergency. In the spring of 2010, 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.

In August 2010 the district passed a 4 mill/35 year Bond Issue and a 1mill Continuing Permanent Improvement Levy for the local share of an Ohio School Facilities (OSFC) construction project. The project will provide a new high school, and allow students from the two buildings currently located in the flood plane to be re-distributed to existing buildings within the District. The total project cost is \$28,000,000 with \$11,000,000 provided by OSFC.

Contacting the 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, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,995,124
Cash in segregated accounts.	7,074
Receivables:	
Property taxes	5,466,678
Income taxes.	805,159
Accounts.	9,352
Intergovernmental	124,771
Accrued interest	1,081
Prepayments	70,131
Materials and supplies inventory.	91,636
Capital assets:	
Land.	348,364
Depreciable capital assets, net	2,445,349
Capital assets, net	2,793,713
Total assets.	15,364,719
Liabilities:	
Accounts payable.	200,986
Accrued wages and benefits	1,589,118
Pension obligation payable.	430,876
Intergovernmental payable	173,266
Unearned revenue	4,297,010
Accrued interest payable	1,943
Notes payable	220,000
Long-term liabilities:	
Due within one year.	425,891
Due within more than one year	1,600,014
Total liabilities	8,939,104
Net Assets:	
Invested in capital assets, net of related debt.	2,325,463
Restricted for:	
Capital projects	273,883
Locally funded programs	34,366
State funded programs.	53,021
Federally funded programs	126,131
Public school support	90,681
Student activities	68,987
Other purposes	105,289
Unrestricted.	3,347,794
Total net assets	\$ 6,425,615

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, 2010

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 8,705,247	\$ 482,616	\$ 546,037	\$ (7,676,594)
Special	2,382,012	-	367,156	(2,014,856)
Vocational	200,446	-	42,175	(158,271)
Other	17,352	-	16,442	(910)
Support services:				
Pupil.	817,360	84,862	22,705	(709,793)
Instructional staff	1,607,070	-	761,308	(845,762)
Board of education	42,287	-	-	(42,287)
Administration.	1,365,990	3,379	1,774	(1,360,837)
Fiscal.	682,175	-	-	(682,175)
Business.	12,906	-	-	(12,906)
Operations and maintenance	1,941,891	36,524	139,274	(1,766,093)
Pupil transportation.	863,025	30,931	35,326	(796,768)
Central	105,759	-	32,332	(73,427)
Operation of non-instructional services:				
Other non-instructional services	133,789	6,641	128,225	1,077
Food service operations	1,017,379	501,109	556,822	40,552
Extracurricular activities.	630,265	132,029	300	(497,936)
Interest and fiscal charges	47,171	-	-	(47,171)
Totals	\$ 20,572,124	\$ 1,278,091	\$ 2,649,876	(16,644,157)

General Revenues:

Property taxes levied for:	
General purposes	4,950,327
Capital outlay.	199,667
Income taxes levied for general purposes	2,307,421
Grants and entitlements not restricted	
to specific programs	9,374,521
Investment earnings	14,690
Miscellaneous	96,036
Total general revenues	16,942,662
Change in net assets	298,505
Net assets at beginning of year.	6,127,110
Net assets at end of year	\$ 6,425,615

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 5,015,217	\$ 936,985	\$ 5,952,202
Cash in segregated accounts	7,074	-	7,074
Receivables:			
Property taxes.	5,271,548	195,130	5,466,678
Income taxes.	805,159	-	805,159
Accounts.	7,363	1,989	9,352
Intergovernmental	-	124,771	124,771
Accrued interest	1,081	-	1,081
Interfund receivable	17,591	-	17,591
Prepayments	70,131	-	70,131
Materials and supplies inventory.	78,788	12,848	91,636
Restricted assets:			
Equity in pooled cash and cash equivalents	42,922	-	42,922
Total assets	<u>\$ 11,316,874</u>	<u>\$ 1,271,723</u>	<u>\$ 12,588,597</u>
Liabilities:			
Accounts payable	\$ 170,087	\$ 30,899	\$ 200,986
Accrued wages and benefits.	1,366,946	222,172	1,589,118
Compensated absences payable	68,903	-	68,903
Retirement incentive payable	14,797	-	14,797
Pension obligation payable	374,443	56,433	430,876
Intergovernmental payable	163,202	10,064	173,266
Interfund payable	-	17,591	17,591
Accrued interest payable	667	-	667
Notes payable.	220,000	-	220,000
Deferred revenue	451,205	16,697	467,902
Unearned revenue.	4,101,519	195,491	4,297,010
Total liabilities.	<u>6,931,769</u>	<u>549,347</u>	<u>7,481,116</u>
Fund Balances:			
Reserved for encumbrances	4,945	163,447	168,392
Reserved for materials and supplies inventory.	78,788	12,848	91,636
Reserved for property tax unavailable for appropriation	708,481	26,218	734,699
Reserved for prepayments.	70,131	-	70,131
Reserved for instructional materials.	18,350	-	18,350
Reserved for school bus purchases	24,572	-	24,572
Unreserved, undesignated, reported in:			
General fund.	3,479,838	-	3,479,838
Special revenue funds	-	377,551	377,551
Capital projects funds	-	142,312	142,312
Total fund balances	<u>4,385,105</u>	<u>722,376</u>	<u>5,107,481</u>
Total liabilities and fund balances	<u>\$ 11,316,874</u>	<u>\$ 1,271,723</u>	<u>\$ 12,588,597</u>

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, 2010

Total governmental fund balances		\$	5,107,481
<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.			2,793,713
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	<u>467,902</u>	
Total			467,902
In the statement of net assets, interest is accrued on outstanding bonds, whereas in governmental funds, interest is accrued when due.			(1,276)
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		(315,000)	
Capital lease obligation		(153,250)	
Compensated absences payable		<u>(1,473,955)</u>	
Total			<u>(1,942,205)</u>
Net assets of governmental activities		\$	<u><u>6,425,615</u></u>

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, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 4,815,459	\$ 197,876	\$ 5,013,335
Income taxes	2,307,421	-	2,307,421
Transportation fees	29,243	-	29,243
Tuition	400,355	-	400,355
Earnings on investments	14,690	58	14,748
Charges for services	-	501,109	501,109
Extracurricular	-	216,968	216,968
Classroom materials and fees	5,563	63,074	68,637
Rental income	36,283	750	37,033
Contributions and donations	12,041	61,383	73,424
Contract services	9,760	-	9,760
Other local revenues	39,186	61,095	100,281
Intergovernmental - state	9,531,976	242,316	9,774,292
Intergovernmental - federal	16,924	2,373,012	2,389,936
Total revenue	<u>17,218,901</u>	<u>3,717,641</u>	<u>20,936,542</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,128,799	597,852	8,726,651
Special	2,033,677	388,543	2,422,220
Vocational	199,600	-	199,600
Other	1,610	15,742	17,352
Support services:			
Pupil	736,839	96,131	832,970
Instructional staff	970,431	665,301	1,635,732
Board of education	42,287	-	42,287
Administration	1,355,630	4,794	1,360,424
Fiscal	679,057	4,870	683,927
Operations and maintenance	1,764,689	148,000	1,912,689
Pupil transportation	795,284	37,355	832,639
Central	74,540	30,094	104,634
Operation of non-instructional services:			
Other non-instructional services	5,380	138,958	144,338
Food service operations	-	1,028,588	1,028,588
Extracurricular activities	437,121	136,877	573,998
Facilities acquisition and construction	-	120,613	120,613
Debt service:			
Principal retirement	145,890	-	145,890
Interest and fiscal charges	48,966	-	48,966
Total expenditures	<u>17,419,800</u>	<u>3,413,718</u>	<u>20,833,518</u>
Excess/deficiency of revenues over/under expenditures	<u>(200,899)</u>	<u>303,923</u>	<u>103,024</u>
Other financing sources:			
Transfers in	1,022,662	-	1,022,662
Total other financing sources	<u>1,022,662</u>	<u>-</u>	<u>1,022,662</u>
Net change in fund balances	821,763	303,923	1,125,686
Fund balances at beginning of year	<u>3,563,342</u>	<u>418,453</u>	<u>3,981,795</u>
Fund balances at end of year	<u>\$ 4,385,105</u>	<u>\$ 722,376</u>	<u>\$ 5,107,481</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, 2010

Net change in fund balances - total governmental funds \$ 1,125,686

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

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

Capital asset additions	\$ 173,858	
Current year depreciation	(329,802)	
Total		(155,944)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (2,281)

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

Taxes	136,659	
Intergovernmental	(202,572)	
Total		(65,913)

Repayments of 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	
Capital lease obligation	40,890	
Total		145,890

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. (71,020)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 426

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.

(678,339)

Change in net assets of governmental activities \$ 298,505

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, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 4,775,000	\$ 4,775,000	\$ 5,036,321	\$ 261,321
Income taxes	2,100,000	2,100,000	2,301,668	201,668
Tuition	340,000	340,000	400,355	60,355
Transportation fees	42,000	42,000	24,846	(17,154)
Earnings on investments	30,000	30,000	16,809	(13,191)
Classroom materials and fees	12,000	12,000	9,988	(2,012)
Rental income	31,500	31,500	36,283	4,783
Contributions and donations	5,000	5,000	11,989	6,989
Contract services	-	-	9,760	9,760
Other local revenues	86,000	86,000	41,428	(44,572)
Intergovernmental - state	9,975,855	9,975,855	9,702,726	(273,129)
Intergovernmental - federal	20,000	20,000	22,053	2,053
Total revenue	<u>17,417,355</u>	<u>17,417,355</u>	<u>17,614,226</u>	<u>196,871</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,692,440	8,569,203	8,157,147	412,056
Special	2,180,596	2,158,159	2,058,387	99,772
Vocational	230,493	227,768	227,095	673
Other	6,153	6,250	3,430	2,820
Support Services:				
Pupil	726,529	725,464	716,082	9,382
Instructional staff	910,341	890,124	972,116	(81,992)
Board of education	47,405	48,150	42,925	5,225
Administration	1,355,380	1,376,669	1,393,146	(16,477)
Fiscal	722,156	733,499	675,063	58,436
Operations and maintenance	1,857,072	1,886,240	1,795,920	90,320
Pupil transportation	848,143	861,465	802,971	58,494
Central	738	750	74,540	(73,790)
Extracurricular activities	476,508	480,829	437,097	43,732
Debt service:				
Principal retirement	310,129	315,000	315,000	-
Interest and fiscal charges	35,008	35,558	35,557	1
Total expenditures	<u>18,399,091</u>	<u>18,315,128</u>	<u>17,706,476</u>	<u>608,652</u>
Excess of expenditures over revenues	<u>(981,736)</u>	<u>(897,773)</u>	<u>(92,250)</u>	<u>805,523</u>
Other financing sources:				
Refund of prior year's expenditures	50,000	50,000	52,861	2,861
Transfers in	1,064,788	1,064,788	1,022,662	(42,126)
Sale of assets	2,000	2,000	1,100	(900)
Total other financing sources	<u>1,116,788</u>	<u>1,116,788</u>	<u>1,076,623</u>	<u>(40,165)</u>
Net change in fund balance	135,052	219,015	984,373	765,358
Fund balance at beginning of year	3,706,308	3,706,308	3,706,308	-
Prior year encumbrances appropriated	230,475	230,475	230,475	-
Fund balance at end of year	<u>\$ 4,071,835</u>	<u>\$ 4,155,798</u>	<u>\$ 4,921,156</u>	<u>\$ 765,358</u>

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, 2010

	Governmental Activities - Internal Service Funds
Operating revenues:	
Sales/charges for services.	\$ 1,773,248
Total operating revenues	<u>1,773,248</u>
Operating expenses:	
Claims expense	1,137,600
Purchased services.	292,694
Total operating expenses.	<u>1,430,294</u>
Operating income	<u>342,954</u>
Nonoperating revenues:	
Interest revenue	1,369
Total nonoperating revenues.	<u>1,369</u>
Income before transfers	344,323
Transfer out	<u>(1,022,662)</u>
Change in net assets.	(678,339)
Net assets at beginning of year	<u>678,339</u>
Net assets at end of year.	<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, 2010

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from sales / charges for services	\$ 1,773,248
Cash payments for contractual services	(511,172)
Cash payments for claims expenses.	(1,137,600)
	124,476
Cash flows from noncapital financing activities:	
Cash used in transfers out	(1,022,662)
Net cash used in noncapital financing activities.	(1,022,662)
Cash flows from investing activities:	
Interest received	1,369
Net cash provided by investing activities	1,369
Net decrease in cash and cash equivalents.	(896,817)
Cash and cash equivalents at beginning of year	896,817
Cash and cash equivalents at end of year	\$ -
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 342,954
Changes in liabilities:	
Decrease in claims payable	(218,478)
Net cash provided by operating activities	\$ 124,476

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 615,104	\$ 124,945
Investments in common stock.	16,544	-
Investments in segregated accounts	186,603	-
Receivables:		
Accounts	-	47
Total assets.	818,251	\$ 124,992
Liabilities:		
Accounts payable.	-	\$ 1,122
Due to students.	-	123,870
Total liabilities	-	\$ 124,992
Net assets:		
Held in trust for scholarships	818,251	
Total net assets	\$ 818,251	

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, 2010

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 5,058
Gifts and contributions	11,379
Total additions	16,437
 Deductions:	
Scholarships awarded	28,000
Change in net assets	(11,563)
Net assets at beginning of year	829,814
Net assets at end of year	\$ 818,251

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 110 classified employees and 144 certified full-time teaching personnel who provide services to 2,157 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 it does 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, 2010

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 POOLS

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, 2010

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

Wyandot-Crawford Health Benefit Plan

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets 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) grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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. Effective February 1, 2010, the District changed from self-insured to a fully insured consortium.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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. 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.

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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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, income taxes, 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, 2010, but which were levied to finance fiscal year 2011 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, 2010, 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.

E. Budgets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Lapsing of Appropriations:

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

F. Cash and Cash Equivalents

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

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 2010, 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, 2010.

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 2010 amounted to \$14,690, which includes \$4,346 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund 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, 2010

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, 2010, 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, 2010 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, instructional materials, 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, 2010

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 includes monies restricted by State statute for school bus purchases and instructional materials.

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.

R. Restricted Assets

Restricted assets in the general fund represent monies restricted by State Statute for school bus purchases and instructional materials. A schedule of the restricted assets 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, 2010

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 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Food service	\$ 4,116
Stimulus Title II-D fund	7,033

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, 2010

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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

A. Cash in Segregated Accounts

The District has \$7,074 held in an account for employee medical savings. These funds are included in the total amount of deposits reported below.

B. Investments in Segregated Accounts

At fiscal year end, \$186,603 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, 2010, the carrying amount of all District deposits was \$1,768,858. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$1,145,405 of the District's bank balance of \$1,807,085 was exposed to custodial risk as discussed below, while \$661,680 was covered by the FDIC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 4,966,315	\$ 4,966,315
Common stock	<u>16,544</u>	<u>-</u>
Total	<u>\$ 4,982,859</u>	<u>\$ 4,966,315</u>

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial 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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 4,966,315	99.67
Common stock	<u>16,544</u>	<u>0.33</u>
Total	<u>\$ 4,982,859</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,768,858
Investments	4,982,859
Investments in segregated accounts	186,603
Cash in segregated accounts	<u>7,074</u>
Total	<u>\$ 6,945,394</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 6,002,198
Private-purpose trust fund	818,251
Agency funds	<u>124,945</u>
Total	<u>\$ 6,945,394</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund financial statements:

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

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

- B.** Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

Transfers to General fund from:	
Nonmajor internal service fund	<u>\$ 1,022,662</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The \$1,022,662 transfer from the internal service fund to the general fund was a residual equity transfer, as the District joined the Wyandot-Crawford Health Benefit Plan effective February 1, 2010 and was no longer self-insured.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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 certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, 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 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$708,481 in the general fund and \$26,218 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$939,686 in the general fund and 44,278 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, 2010

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, 2010 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 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 205,683,710	92.64	\$ 210,922,550	97.25
Public utility personal	5,908,990	2.66	5,971,360	2.75
Tangible personal property	<u>10,440,565</u>	<u>4.70</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 222,033,265</u>	<u>100.00</u>	<u>\$ 216,893,910</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$49.90		 \$49.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 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	\$ 5,466,678
Income taxes	805,159
Accounts	9,352
Intergovernmental	124,771
Accrued interest	<u>1,081</u>
Total	<u>\$ 6,407,041</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, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>07/01/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</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	1,613,617	-	-	1,613,617
Buildings and building improvements	6,865,325	138,375	-	7,003,700
Furniture, fixtures and equipment	1,525,693	-	-	1,525,693
Vehicles	1,223,281	35,483	(22,805)	1,235,959
Textbooks	1,286,113	-	-	1,286,113
Total capital assets, being depreciated	<u>12,514,029</u>	<u>173,858</u>	<u>(22,805)</u>	<u>12,665,082</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,398,086)	(49,765)	-	(1,447,851)
Buildings and building improvements	(5,540,712)	(81,589)	-	(5,622,301)
Furniture, fixtures and equipment	(1,003,407)	(91,342)	-	(1,094,749)
Vehicles	(880,693)	(57,246)	20,524	(917,415)
Textbooks	(1,087,557)	(49,860)	-	(1,137,417)
Total accumulated depreciation	<u>(9,910,455)</u>	<u>(329,802)</u>	<u>20,524</u>	<u>(10,219,733)</u>
Governmental activities capital assets, net	<u>\$ 2,951,938</u>	<u>\$ (155,944)</u>	<u>\$ (2,281)</u>	<u>\$ 2,793,713</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 127,175
Vocational	5,587
<u>Support services:</u>	
Instructional staff	3,347
Administration	2,403
Fiscal	1,949
Business	12,906
Operation and maintenance	40,511
Pupil transportation	59,831
Central	1,125
Extracurricular	72,938
Food service operations	<u>2,030</u>
Total depreciation expense	<u>\$ 329,802</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - 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 10 - NOTES PAYABLE

Changes in the District's notes payable during fiscal year 2010 follows:

	Balance Outstanding <u>07/01/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Tax anticipation notes	\$ 430,000	\$ -	\$ (210,000)	\$ 220,000	\$ 220,000

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, 2010 are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 220,000	\$ 4,785	\$ 224,785

NOTE 11 - LEASES

Capitalized Leases

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

Capital assets consisting of equipment have been capitalized in the amount of \$222,829 in the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010 was \$41,781 leaving a current book value of \$181,048. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$40,890 paid by the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - LEASES - (Continued)

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, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 54,943
2012	54,944
2013	54,943
2014	<u>9,158</u>
Total minimum lease payments	173,988
Less: amount representing interest	<u>(20,738)</u>
Total	<u>\$ 153,250</u>

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2010 consist of the following:

	<u>Balance Outstanding 07/01/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/10</u>	<u>Amounts Due in One Year</u>
Governmental activities:					
Energy conservation bonds	\$ 420,000	\$ -	\$ (105,000)	\$ 315,000	\$ 105,000
Capital lease obligation	194,140	-	(40,890)	153,250	44,283
Compensated absences	<u>1,461,756</u>	<u>339,980</u>	<u>(244,081)</u>	<u>1,557,655</u>	<u>276,608</u>
Total long-term obligations	<u>\$ 2,075,896</u>	<u>\$ 339,980</u>	<u>\$ (389,971)</u>	<u>\$ 2,025,905</u>	<u>\$ 425,891</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 (a nonmajor governmental fund). The interest rate of the bonds is 5.1 percent.

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:

<u>Fiscal Year Ending June 30,</u>	<u>Energy Conservation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 315,000</u>	<u>\$ 32,130</u>	<u>\$ 347,130</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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, 2010, are a voted debt margin of \$19,205,452 and an unvoted debt margin of \$216,894.

NOTE 13 - COMPENSATED ABSENCES

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Classified employees receive one-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.

B. Retirement Incentive

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education meeting. In fiscal year 2010, one employee received this incentive. A liability of \$14,797 was recorded on the governmental fund financial statements. This amount is included as a component of compensated absences in the long-term obligations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, 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	\$ 52,411,665
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 and there have been no reductions in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2010, the District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2A). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Benefits

Medical/Surgical Dental insurance was offered to employees through a self-insurance internal service fund from July 1, 2009 through January 31, 2010. In February 2010, the District joined the Wyandot-Crawford Health Benefit Plan (WCHBP), a public entity risk pool currently operating as a common risk management and insurance program. The WCHBP now includes seven school districts. The District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the District to WCHBP. The Agreement for formation of the WCHBP provides that the WCHBP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 16. As such, no funding provisions are required by the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

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 2010, 12.78 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, 2010, 2009 and 2008 were \$328,741, \$227,679 and \$225,304, respectively; 51.22 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 Web site at www.strsoh.org.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 2010, 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, 2010, 2009 and 2008 were \$1,059,740, \$1,043,240 and \$1,013,377, respectively; 83.64 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$48,609 made by the District and \$34,720 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, 2010, 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 16 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$49,650, \$152,737 and \$151,355, respectively; 51.22 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$19,550, \$18,785 and \$16,234, respectively; 51.22 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 2010, 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, 2010, 2009, and 2008 were \$81,518, \$80,249 and \$77,952, respectively; 83.64 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, disbursements, and encumbrances.

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); and,
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 984,373
Net adjustment for revenue accruals	(395,325)
Net adjustment for expenditure accruals	149,693
Net adjustment for other sources	(53,961)
Adjustment for encumbrances	<u>136,983</u>
GAAP basis	<u>\$ 821,763</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 18 - CONTINGENCIES - (Continued)

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.

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.

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside balance as of June 30, 2009	\$ (18,319)	\$ -
Current year set-aside requirement	326,435	326,435
Current year offset	-	(215,503)
Qualifying disbursements	(289,766)	(1,086,641)
Total	\$ 18,350	\$ (975,709)
Balance carried forward to fiscal year 2011	\$ 18,350	\$ -

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. The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbook/instructional materials. This balance is reported as restricted equity in pooled cash and as reserved fund balance.

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 \$24,572 at June 30, 2010. This balance is reported as restricted equity in pooled cash and reserved fund balance.

A schedule of the restricted assets at June 30, 2010 follows:

Amount restricted for bus purchase	\$ 24,572
Amount restricted for textbooks/instructional materials	18,350
Total	\$ 42,922

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

<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	2010	10.553	\$95,519		\$95,519	
National School Lunch Program	2010	10.555	397,992	\$52,804	397,992	\$52,804
Total U.S. Department of Agriculture/Child Nutrition Cluster			493,511	52,804	493,511	52,804
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Cluster:						
Title I Grants to Local Educational Agencies	2010	84.010	267,344		244,201	
	2009		27,089		52,067	
Total Title I Grants to Local Educational Agencies			294,433		296,268	
ARRA - Title I Grants to Local Educational Agencies	2010	84.389	133,374		101,455	
Total Title I Cluster			427,807		397,723	
Special Education Cluster:						
Special Education - Grants to States	2010	84.027	434,444		396,750	
	2009		62,598		68,069	
Total Special Education - Grants to States			497,042		464,819	
ARRA - Special Education Grants to States	2010	84.391	229,677		142,958	
Total Special Education Cluster			726,719		607,777	
Safe and Drug-Free Schools and Communities - State Grants	2010	84.186	7,806		7,723	
	2009				220	
	2006				734	
Total Safe and Drug-Free Schools and Communities - State Grants			7,806		8,677	
State Grants for Innovative Programs	2009	84.298	3,121		3,310	
Education Technology State Grants	2010	84.318	2,647		1,993	
	2009		4,087		4,809	
Total Education Technology State Grants			6,734		6,802	
Improving Teacher Quality State Grants	2010	84.367	87,247		75,530	
	2009				687	
Total Improving Teacher Quality State Grants			87,247		76,217	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	2010	84.394	502,179		412,095	
Total U.S. Department of Education			1,761,613		1,512,601	
<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	89,880		89,880	
Totals			<u>\$2,345,004</u>	<u>\$52,804</u>	<u>\$2,095,992</u>	<u>\$52,804</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
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

INDEPENDENT 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
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 Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 26, 2011. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 26, 2011.

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

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

Dave Yost
Auditor of State

January 26, 2011



Dave Yost • Auditor of State

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

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

To the Board of Education:

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 could directly and materially affect each of Shelby City School District's major federal programs for the year ended June 30, 2010. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 Shelby City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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 noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 26, 2011.

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



Dave Yost
Auditor of State

January 26, 2011

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

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 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 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(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 – Title I Grants to Local Educational Agencies; CFDA # 84.389 – ARRA - Title I Grants to Local Educational Agencies; CFDA # 84.027 – Special Education_Grants to States; CFDA # 84.391 – ARRA - Special Education Grants to States; CFDA # 84.394 – ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants.
(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



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SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2011**