



Dave Yost • Auditor of State

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances of Governmental Funds To the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	21
Notes to the Basic Financial Statements	23
Federal Awards Receipts and Expenditures Schedule.....	57
Notes to the Federal Awards Receipts and Expenditures Schedule	58
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	59
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	61
Schedule of Findings.....	63
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	65

This page intentionally left blank.



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, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2011, 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, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of June 30, 2011, and the respective changes in financial position 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.

As further described in Note 3 to the basic financial statements, the District restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2012, 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 Expenditure 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 13, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities increased \$12,869,661 which represents a 200.29% increase from 2010, mainly due to an increase in grants and entitlements, issued debt and acquired capital assets. During fiscal year 2011 the District began an Ohio School Facilities Commission project.
- General revenues accounted for \$28,579,830 in revenue or 84.53% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,229,444 or 15.47% of total revenues of \$33,809,274.
- The District had \$20,939,613 in expenses related to governmental activities; only \$5,229,444 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$28,579,830 were adequate to provide for these programs.
- The District's major funds are the general fund, the building fund, and the classroom facilities fund. The general fund had \$17,531,474 in revenues and \$16,395,499 in expenditures. During fiscal year 2011, the general fund's fund balance increased \$1,135,975 from a restated balance of \$4,535,926 to a balance of \$5,671,901.
- The building fund had \$6,003,066 in revenues and other financing sources and \$181,042 in expenditures. During fiscal year 2011, the building fund's fund balance increased from zero to a balance \$5,822,024.
- The classroom facilities fund had \$12,187,180 in revenues and other financing sources and \$554,551 in expenditures. During fiscal year 2011, the classroom facilities fund's fund balance increased from zero to a balance of \$11,632,629.

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, the building fund and the classroom facilities fund are the only major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" 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.

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

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

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

Reporting the District's Most Significant Fund

Fund Financial Statements

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

Governmental Funds

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

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 20 and 21. 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, 2011
(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 23-56 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2011 and 2010.

	Governmental Activities	
	2011	2010
<u>Assets</u>		
Current and other assets	\$ 41,968,372	\$ 12,571,006
Capital assets, net	3,923,679	2,793,713
Total assets	45,892,051	15,364,719
<u>Liabilities</u>		
Current liabilities	7,045,596	6,913,199
Long-term liabilities	19,551,179	2,025,905
Total liabilities	26,596,775	8,939,104
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,448,555	2,325,463
Restricted	11,440,225	752,358
Unrestricted	4,406,496	3,347,794
Total net assets	\$ 19,295,276	\$ 6,425,615

Net assets increased \$12,869,661 or 200.29%, mainly due to an increase in grants and entitlements, issued debt and acquired capital assets. During fiscal year 2011 the District was approved for a grant from the Ohio School Facilities Commission in the amount of \$11,081,198. A portion of the increase in restricted net assets at June 30, 2011, is associated with this grant.

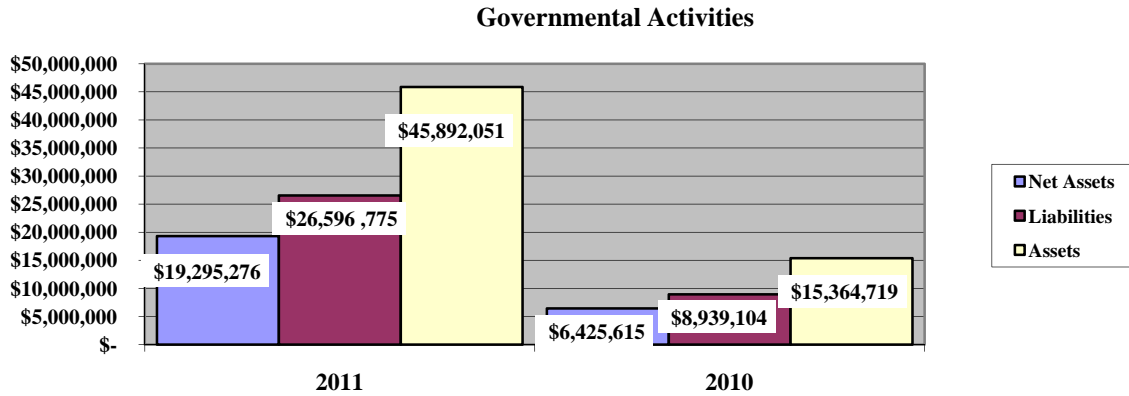
At year end, capital assets represented 8.55% of total assets. Capital assets include land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$3,448,555. 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, \$11,440,225, 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, 2011
(UNAUDITED)

The graph below shows the District's assets, liabilities and net assets at June 30, 2011 and 2010:



Governmental Activities

Net assets of the District's governmental activities increased \$12,869,661. Total governmental expenses of \$20,939,613 were offset by program revenues of \$5,229,444 and general revenues of \$28,579,830. Program revenues supported 24.97% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 82.90% of total governmental revenue. Real estate property is reappraised every six years.

The table below shows the change in net assets for fiscal year 2011 and 2010. The 2010 balance of operating grants and contributions and general revenues – grants and entitlements have been restated to conform to 2011 presentation of Pathway to Student Success (PASS) funding from the State of Ohio which is reported as an operating grant and contribution rather than as general revenue.

	Change in Net Assets	
	Governmental Activities	
	2011	Restated 2010
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,253,186	\$ 1,278,091
Operating grants and contributions	3,976,258	3,328,479
General revenues:		
Property taxes	5,911,761	5,149,994
Income taxes	2,340,242	2,307,421
Grants and entitlements not restricted	8,695,703	8,695,918
Grants and entitlements restricted for		
Ohio School Facilities Commission	11,081,198	-
Investment earnings	27,979	14,690
Capital Contributions	450,000	-
Miscellaneous	72,947	96,036
Total revenues	<u>33,809,274</u>	<u>20,870,629</u>

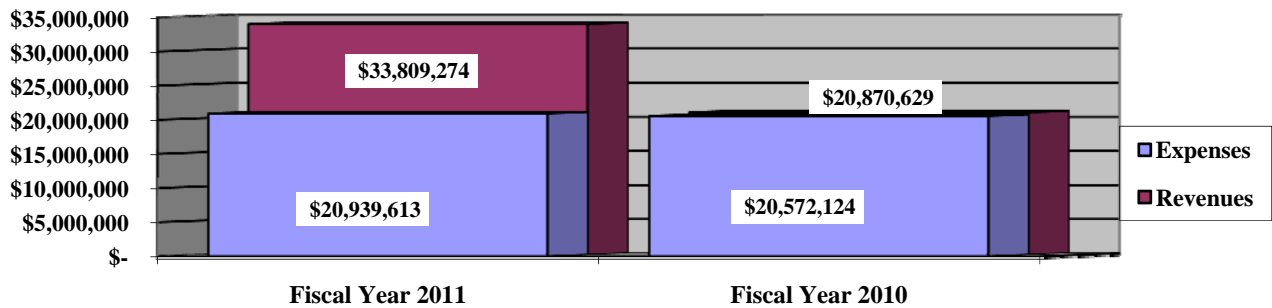
**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

	<u>Change in Net Assets</u> <u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	8,398,198	8,705,247
Special	2,367,435	2,382,012
Vocational	220,166	200,446
Other	20,876	17,352
Support services:		
Pupil	822,463	817,360
Instructional staff	1,669,009	1,607,070
Board of education	60,192	42,287
Administration	1,331,934	1,365,990
Fiscal	671,260	682,175
Business	12,343	12,906
Operations and maintenance	1,749,559	1,941,891
Pupil transportation	979,203	863,025
Central	103,370	105,759
Other non-instructional services	138,789	133,789
Food service operations	1,044,202	1,017,379
Extracurricular activities	670,172	630,265
Interest and fiscal charges	680,442	47,171
Total expenses	<u>20,939,613</u>	<u>20,572,124</u>
 Changes in net assets	 12,869,661	 298,505
Net assets at beginning of year	<u>6,425,615</u>	<u>6,127,110</u>
Net assets at end of year	<u><u>\$ 19,295,276</u></u>	<u><u>\$ 6,425,615</u></u>

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010.

Governmental Activities - Revenues and Expenses



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

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. The 2010 cost of net services for special instruction has been restated to conform to 2011 presentation of PASS funding from the State of Ohio which is reported as an operating grant and contribution offsetting special instruction.

	Governmental Activities			
	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Restated Net Cost of Services <u>2010</u>
Program expenses:				
Instruction:				
Regular	\$ 8,398,198	\$ 6,786,628	\$ 8,705,247	\$ 7,676,594
Special	2,367,435	1,127,755	2,382,012	2,014,856
Vocational	220,166	177,675	200,446	158,271
Other	20,876	(1,902)	17,352	910
Support services:				
Pupil	822,463	715,214	817,360	709,793
Instructional staff	1,669,009	1,130,497	1,607,070	845,762
Board of education	60,192	60,192	42,287	42,287
Administration	1,331,934	1,328,915	1,365,990	1,360,837
Fiscal	671,260	671,260	682,175	682,175
Business	12,343	12,343	12,906	12,906
Operations and maintenance	1,749,559	1,605,542	1,941,891	1,766,093
Pupil transportation	979,203	910,936	863,025	796,768
Central	103,370	96,461	105,759	73,427
Other non-instructional services	138,789	3,660	133,789	(1,077)
Food service operations	1,044,202	28,203	1,017,379	(40,552)
Extracurricular activities	670,172	534,460	630,265	497,936
Interest and fiscal charges	<u>680,442</u>	<u>522,330</u>	<u>47,171</u>	<u>47,171</u>
Total expenses	<u>\$ 20,939,613</u>	<u>\$ 15,710,169</u>	<u>\$ 20,572,124</u>	<u>\$ 16,644,157</u>

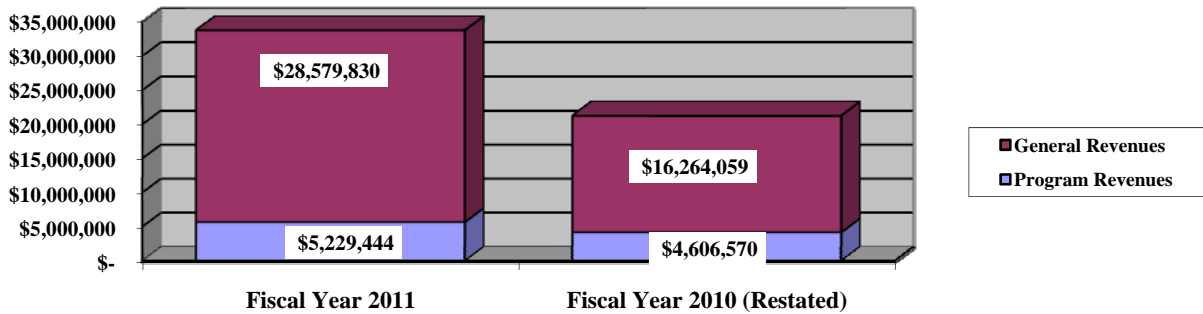
The dependence upon tax and other general revenues for governmental activities is apparent, as 73.50% of instruction activities in fiscal year 2011 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.03% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010. The 2010 program revenues and general revenues have been restated to conform to 2011 presentation of PASS funding from the State of Ohio which is reported as program revenue rather than as general revenue.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$24,229,462, which is higher than last year's restated total of \$5,107,481. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase	Percentage Change
General	\$ 5,671,901	\$ 4,535,926	\$ 1,135,975	25.04 %
Building	5,822,024	-	5,822,024	100.00 %
Classroom facilities	11,632,629	-	11,632,629	100.00 %
Other governmental	<u>1,102,908</u>	<u>571,555</u>	<u>531,353</u>	92.97 %
Total	<u>\$ 24,229,462</u>	<u>\$ 5,107,481</u>	<u>\$ 19,121,981</u>	374.39 %

General Fund

The District's general fund balance increased \$1,135,975. Revenues of the general fund decreased slightly during the fiscal year. Tax revenue increased 5.24% due to the timing of collections by the Richland County auditor. Earnings on investments increased 24.46% due to interest rates on the District's nonnegotiable certificates of deposit. Other revenues decreased 30.31% due mostly to \$342,954 in revenues recognized in the District's self-insurance fund during fiscal year 2010.

Expenditures decreased 6.77% during fiscal year 2011. Instruction expenditures decreased by \$1,164,997, or 11.18%, due to fewer expenditures for regular and special instruction. Additionally, extracurricular activities expenditures increased 7.30%, or \$31,890, from fiscal year 2010.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

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

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 7,496,404	\$ 7,122,880	5.24 %
Earnings on investments	19,987	16,059	24.46 %
Intergovernmental	9,267,139	9,548,900	(2.95) %
Other revenues	<u>748,214</u>	<u>1,073,697</u>	(30.31) %
 Total	 <u>\$ 17,531,744</u>	 <u>\$ 17,761,536</u>	 (1.29) %
<u>Expenditures</u>			
Instruction	\$ 9,256,702	\$ 10,421,699	(11.18) %
Support services	6,481,983	6,518,760	(0.56) %
Extracurricular activities	469,011	437,121	7.30 %
Operation of non-instructional services	6,596	12,745	(48.25) %
Debt service	<u>181,207</u>	<u>194,856</u>	(7.00) %
 Total	 <u>\$ 16,395,499</u>	 <u>\$ 17,585,181</u>	 (6.77) %

Building Fund

The building fund had \$6,003,066 in revenues and other financing sources, including proceeds from the sale of bonds of \$5,999,992, and \$181,042 in expenditures. The building fund's fund balance increased from zero to a balance of \$5,822,024.

Classroom Facilities Fund

The classroom facilities fund had \$12,187,180 in revenues and other financing sources, including proceeds from the sale of bonds of \$11,000,000, and \$554,551 in expenditures. The classroom facilities fund's fund balance increased from zero to a balance of \$11,623,629.

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 2011, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$16,606,485 and were increased to final budgeted revenues and other financing sources of \$16,741,590 during the year. Actual revenues and other financing sources for fiscal year 2011 were \$17,082,243. This represents a \$340,653 increase over final budgeted revenues. This increase is primarily due to an increase in property tax receipts and intergovernmental revenues.

General fund original appropriations of \$18,213,012 were decreased to \$17,542,304 in the final appropriations. The actual budget basis expenditures for fiscal year 2011 totaled \$16,837,650, which was \$704,654 less than final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$3,923,679 invested in land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. This entire amount is reported in governmental activities.

The following table shows fiscal year 2011 balances compared to 2010.

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

	Governmental Activities	
	2011	2010
Land	\$ 797,675	\$ 348,364
Construction in progress	727,652	-
Land improvements	168,798	165,766
Buildings and building improvements	1,324,193	1,381,399
Furniture, fixtures and equipment	428,313	430,944
Vehicles	342,312	318,544
Textbooks	134,736	148,696
Total	\$ 3,923,679	\$ 2,793,713

The overall increase in capital assets of \$1,129,966 is due to capital outlays amounting to \$1,402,162 exceeding depreciation expense of \$267,126 and current year deletions, net of depreciation, of \$5,070.

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

Debt Administration

At June 30, 2011, the District had \$108,967 in a capital lease obligation and \$210,000 in energy conservation bonds outstanding. The District also issued series 2010A and 2010B bonds during the year, all of which was outstanding at June 30, 2011. The series 2010A bonds consist of \$1,190,000 in current interest bonds and \$334,465 in capital appreciation bonds and accreted interest. The series 2010B general obligation bonds had a balance of \$15,500,000 at June 30, 2011 and consist entirely of current interest bonds. Of the District's total obligations of \$17,343,432, \$302,960 is due within one year and \$17,040,472 is due in more than one year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2011.

Outstanding Long-Term Debt at June 30, 2011

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Energy conservation bonds	\$ 210,000	\$ 315,000
Series 2010A general obligation bonds	1,524,465	-
Series 2010B general obligation bonds	15,500,000	-
Capital lease obligation	<u>108,967</u>	<u>153,250</u>
Total	<u>\$17,343,432</u>	<u>\$ 468,250</u>

At June 30, 2011, the District's overall legal debt margin was \$2,541,842 with an unvoted debt margin of \$214,050.

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

Current Issues Affecting Financial Condition

During fiscal year 2008, the District was released from fiscal emergency. In the spring of 2011, negotiations on new contracts for certified and classified staff were completed. The certified staff received a three year contract with no increases in 2012 or 2013. The classified contract specifies 2% increases in fiscal year 2012 and is due to be re-negotiated in the spring of 2012.

In August 2010, the District passed a 4 mill, 35 year bond issue and a 1 mill Continuing Permanent Improvement Levy for the local share of an Ohio School Facilities Commission (OSFC) construction project. The project will provide a new high school, and allow students from the two buildings currently located in the flood plane to be redistributed to existing buildings within the District. The total project cost is approximately \$28 million with approximately \$11 million 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, Treasurer, 25 High School Avenue, Shelby, Ohio 44875 or via email at anatra.elizabethm@shelbyk12.org.

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 24,518,016
Cash in segregated accounts	11,278
Receivables:	
Property taxes	5,776,506
Income taxes.	790,457
Accounts.	4,124
Intergovernmental	10,339,673
Accrued interest	499
Prepayments	62,582
Materials and supplies inventory	102,421
Unamortized bond issuance costs.	362,816
Capital assets:	
Land and construction in progress	1,525,327
Depreciable capital assets, net	2,398,352
Capital assets, net.	<u>3,923,679</u>
Total assets.	<u>45,892,051</u>
Liabilities:	
Accounts payable.	197,485
Contracts payable.	165,572
Accrued wages and benefits	1,646,612
Pension obligation payable	433,786
Intergovernmental payable	106,956
Unearned revenue	4,326,676
Accrued interest payable	168,509
Long-term liabilities:	
Due within one year	559,576
Due in more than one year.	18,991,603
Total liabilities	<u>26,596,775</u>
Net Assets:	
Invested in capital assets, net of related debt	3,448,555
Restricted for:	
Capital projects	10,111,457
Classroom facilities maintenance	112,527
Debt service	682,917
Locally funded programs	22,887
State funded programs.	62,814
Federally funded programs.	226,489
Student activities	67,554
Other purposes.	153,580
Unrestricted.	<u>4,406,496</u>
Total net assets	<u>\$ 19,295,276</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 8,398,198	\$ 467,741	\$ 1,143,829	\$ (6,786,628)
Special	2,367,435	-	1,239,680	(1,127,755)
Vocational.	220,166	-	42,491	(177,675)
Other	20,876	-	22,778	1,902
Support services:				
Pupil.	822,463	88,863	18,386	(715,214)
Instructional staff	1,669,009	-	538,512	(1,130,497)
Board of education.	60,192	-	-	(60,192)
Administration.	1,331,934	2,531	488	(1,328,915)
Fiscal.	671,260	-	-	(671,260)
Business.	12,343	-	-	(12,343)
Operations and maintenance.	1,749,559	64,933	79,084	(1,605,542)
Pupil transportation	979,203	35,512	32,755	(910,936)
Central.	103,370	-	6,909	(96,461)
Operation of non-instructional services:				
Other non-instructional services.	138,789	6,880	128,249	(3,660)
Food service operations	1,044,202	451,764	564,235	(28,203)
Extracurricular activities	670,172	134,962	750	(534,460)
Interest and fiscal charges.	680,442	-	158,112	(522,330)
Totals.	\$ 20,939,613	\$ 1,253,186	\$ 3,976,258	(15,710,169)

General Revenues:

Property taxes levied for:	
General purposes	4,956,611
Special revenue	80,515
Debt service.	587,776
Capital outlay	286,859
Income taxes levied for	
general purposes	2,340,242
Grants and entitlements not restricted to specific programs	
	8,695,703
Grants and entitlements restricted for Ohio School Facilities Commission.	
	11,081,198
Investment earnings	27,979
Capital Contribution	450,000
Miscellaneous	72,947
Total general revenues	28,579,830
Change in net assets	12,869,661
Net assets at beginning of year.	6,425,615
Net assets at end of year	\$ 19,295,276

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 5,570,208	\$ 5,870,210	\$ 11,757,956	\$ 1,200,787	\$ 24,399,161
Cash in segregated accounts	11,278	-	-	-	11,278
Receivables:					
Property taxes	4,699,954	-	-	1,076,552	5,776,506
Income taxes	790,457	-	-	-	790,457
Accounts	4,124	-	-	-	4,124
Intergovernmental	19,262	-	9,900,642	419,769	10,339,673
Accrued interest	499	-	-	-	499
Interfund loans	17,591	-	-	-	17,591
Prepayments	44,740	-	-	17,842	62,582
Materials and supplies inventory	91,885	-	-	10,536	102,421
Restricted assets:					
Equity in pooled cash and cash equivalents	118,855	-	-	-	118,855
Total assets	<u>\$ 11,368,853</u>	<u>\$ 5,870,210</u>	<u>\$ 21,658,598</u>	<u>\$ 2,725,486</u>	<u>\$ 41,623,147</u>
Liabilities:					
Accounts payable	\$ 74,191	\$ 7,941	\$ -	\$ 115,353	\$ 197,485
Contracts payable	-	40,245	125,327	-	165,572
Accrued wages and benefits	1,328,285	-	-	318,327	1,646,612
Compensated absences payable	27,674	-	-	-	27,674
Retirement incentive payable	30,984	-	-	-	30,984
Interfund loans payable	-	-	-	17,591	17,591
Intergovernmental payable	93,311	-	-	13,645	106,956
Unearned revenue	3,520,294	-	-	806,382	4,326,676
Deferred revenue	269,847	-	9,900,642	269,860	10,440,349
Pension obligation payable	352,366	-	-	81,420	433,786
Total liabilities.	<u>5,696,952</u>	<u>48,186</u>	<u>10,025,969</u>	<u>1,622,578</u>	<u>17,393,685</u>
Fund Balances:					
Nonspendable:					
Materials and supplies inventory	91,885	-	-	10,536	102,421
Prepays	44,740	-	-	17,842	62,582
Restricted:					
Debt service	-	-	-	487,338	487,338
Capital improvements	-	5,822,024	11,632,629	292,035	17,746,688
Classroom facilities maintenance	-	-	-	106,869	106,869
Non-public schools	-	-	-	36,121	36,121
Special education	-	-	-	19,073	19,073
Targeted academic assistance	-	-	-	6,588	6,588
Other purposes	-	-	-	138,735	138,735
Textbooks	106,504	-	-	67,554	174,058
School bus purchases	12,351	-	-	-	12,351
Committed:					
Other purposes	-	-	-	2,984	2,984
Assigned:					
Student instruction	21,887	-	-	-	21,887
Student and staff support	186,604	-	-	-	186,604
Extracurricular activities	770,485	-	-	-	770,485
School supplies	56,352	-	-	-	56,352
Other purposes	511	-	-	-	511
Unassigned (deficit)	4,380,582	-	-	(82,767)	4,297,815
Total fund balances	<u>5,671,901</u>	<u>5,822,024</u>	<u>11,632,629</u>	<u>1,102,908</u>	<u>24,229,462</u>
Total liabilities and fund balances	<u>\$ 11,368,853</u>	<u>\$ 5,870,210</u>	<u>\$ 21,658,598</u>	<u>\$ 2,725,486</u>	<u>\$ 41,623,147</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, 2011

Total governmental fund balances		\$ 24,229,462
<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.		3,923,679
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes receivable	\$ 309,300	
Intergovernmental receivable	10,131,049	
Total	10,440,349	10,440,349
Unamortized bond issuance costs are not recognized in the funds.		362,816
Unamortized premiums on bond issuances are not recognized in the funds.		(706,559)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(168,509)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(17,024,465)	
Energy conservation bonds	(210,000)	
Capital lease obligations	(108,967)	
Compensated absences	(1,442,530)	
Total	(18,785,962)	(18,785,962)
Net assets of governmental activities		\$ 19,295,276

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, 2011

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Property taxes	\$ 5,156,162	\$ -	\$ -	\$ 914,201	\$ 6,070,363
Income taxes	2,340,242	-	-	-	2,340,242
Transportation fees	34,196	-	-	-	34,196
Tuition	277,360	-	-	-	277,360
Earnings on investments	19,987	3,074	6,624	242	29,927
Charges for services	-	-	-	451,764	451,764
Extracurricular	62,017	-	-	134,962	196,979
Classroom materials and fees	57,618	-	-	-	57,618
Rental income	54,017	-	-	750	54,767
Contributions and donations	21,342	-	-	22,206	43,548
Contract services	1,010	-	-	-	1,010
Other local revenues	240,384	-	-	464,105	704,489
Intergovernmental - state	9,215,970	-	1,180,556	342,106	10,738,632
Intergovernmental - federal	51,169	-	-	2,802,956	2,854,125
Total revenues	<u>17,531,474</u>	<u>3,074</u>	<u>1,187,180</u>	<u>5,133,292</u>	<u>23,855,020</u>
Expenditures:					
Current:					
Instruction:					
Regular	7,251,263	-	90,410	1,080,009	8,421,682
Special	1,787,516	-	-	577,463	2,364,979
Vocational	217,923	-	-	-	217,923
Other	-	-	-	20,876	20,876
Support services:					
Pupil	831,237	-	-	-	831,237
Instructional staff	914,479	-	-	754,884	1,669,363
Board of education	60,192	-	-	-	60,192
Administration	1,378,428	-	-	-	1,378,428
Fiscal	656,746	-	-	14,589	671,335
Operations and maintenance	1,623,450	-	-	77,861	1,701,311
Pupil transportation	915,141	-	-	73,425	988,566
Central	102,310	-	-	-	102,310
Operation of non-instructional services:					
Other non-instructional services	6,596	7,941	-	124,252	138,789
Food service operations	-	-	-	1,053,337	1,053,337
Extracurricular activities	469,011	-	-	137,145	606,156
Facilities acquisition and construction	-	173,101	464,141	575,029	1,212,271
Debt service:					
Principal retirement	149,283	-	-	-	149,283
Interest and fiscal charges	31,924	-	-	463,069	494,993
Bond issuance costs	-	-	-	369,421	369,421
Total expenditures	<u>16,395,499</u>	<u>181,042</u>	<u>554,551</u>	<u>5,321,360</u>	<u>22,452,452</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,135,975</u>	<u>(177,968)</u>	<u>632,629</u>	<u>(188,068)</u>	<u>1,402,568</u>
Other financing sources:					
Premium on bonds sold	-	-	-	719,421	719,421
Sale of bonds	-	5,999,992	11,000,000	-	16,999,992
Total other financing sources	<u>-</u>	<u>5,999,992</u>	<u>11,000,000</u>	<u>719,421</u>	<u>17,719,413</u>
Net change in fund balances	1,135,975	5,822,024	11,632,629	531,353	19,121,981
Fund balances at beginning of year (restated).	<u>4,535,926</u>	<u>-</u>	<u>-</u>	<u>571,555</u>	<u>5,107,481</u>
Fund balances at end of year.	<u>\$ 5,671,901</u>	<u>\$ 5,822,024</u>	<u>\$ 11,632,629</u>	<u>\$ 1,102,908</u>	<u>\$ 24,229,462</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, 2011

Net change in fund balances - total governmental funds	\$	19,121,981
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 1,402,162	
Current year depreciation	<u>(267,126)</u>	
Total		1,135,036
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(5,070)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(158,602)	
Intergovernmental	<u>10,131,049</u>	
Total		9,972,447
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:		
Energy Conservation Bonds	105,000	
Capital leases	<u>44,283</u>	
Total		149,283
Issuances of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(16,999,992)
Premiums on bonds and bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. The following transactions occurred in the year:		
Premiums on bonds	(719,421)	
Bond issuance costs	<u>369,421</u>	
Total		(350,000)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Increase in accrued interest payable	(167,233)	
Accreted interest on capital appreciation bonds	(24,473)	
Amortization of bond issuance costs	(6,605)	
Amortization of bond premiums	<u>12,862</u>	
Total		(185,449)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>31,425</u>
Change in net assets of governmental activities	\$	<u>12,869,661</u>

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, 2011

	<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	\$ 4,810,000	\$ 4,845,105	\$ 4,946,980	\$ 101,875
Income taxes.	2,255,000	2,355,000	2,354,944	(56)
Tuition.	390,000	390,000	277,360	(112,640)
Transportation fees.	15,000	15,000	34,469	19,469
Earnings on investments	17,000	17,000	17,579	579
Classroom materials and fees	5,000	5,000	11,920	6,920
Rental income	30,000	30,000	54,017	24,017
Contributions and donations	5,000	5,000	52	(4,948)
Contract services.	-	-	1,010	1,010
Other local revenues	49,300	49,300	54,353	5,053
Intergovernmental - state	8,958,185	8,958,185	9,195,661	237,476
Intergovernmental - federal	22,000	22,000	51,169	29,169
Total revenues	<u>16,556,485</u>	<u>16,691,590</u>	<u>16,999,514</u>	<u>307,924</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,373,716	7,644,439	7,381,244	263,195
Special.	1,947,897	1,778,573	1,852,398	(73,825)
Vocational.	195,097	194,225	219,459	(25,234)
Other.	5,253	5,000	-	5,000
Support services:				
Pupil.	762,423	727,241	758,298	(31,057)
Instructional staff	982,556	985,823	974,891	10,932
Board of education	60,725	58,561	73,301	(14,740)
Administration.	1,488,890	1,444,578	1,457,597	(13,019)
Fiscal	746,286	694,368	667,776	26,592
Operations and maintenance.	1,777,290	2,161,137	1,671,951	489,186
Pupil transportation	870,152	893,929	908,427	(14,498)
Central.	79,793	75,950	52,359	23,591
Extracurricular activities.	559,583	532,630	474,099	58,531
Debt service:				
Principal retirement	341,446	325,000	325,000	-
Interest and fiscal charges.	21,905	20,850	20,850	-
Total expenditures	<u>18,213,012</u>	<u>17,542,304</u>	<u>16,837,650</u>	<u>704,654</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(1,656,527)</u>	<u>(850,714)</u>	<u>161,864</u>	<u>1,012,578</u>
Other financing sources:				
Refund of prior year's expenditures	25,000	25,000	66,553	41,553
Sale of capital assets.	25,000	25,000	16,176	(8,824)
Total other financing sources	<u>50,000</u>	<u>50,000</u>	<u>82,729</u>	<u>32,729</u>
Net change in fund balance.	(1,606,527)	(800,714)	244,593	1,045,307
Fund balance at beginning of year (restated).	4,223,042	4,223,042	4,223,042	-
Prior year encumbrances appropriated . . .	136,983	136,983	136,983	-
Fund balance at end of year	<u>\$ 2,753,498</u>	<u>\$ 3,559,311</u>	<u>\$ 4,604,618</u>	<u>\$ 1,045,307</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 605,777	\$ 128,162
Investments in segregated accounts.	398,820	-
Investments in common stock.	23,468	-
Total assets	1,028,065	\$ 128,162
Liabilities:		
Accounts payable.	1,800	\$ 5,889
Due to students.	-	122,273
Total liabilities	1,800	\$ 128,162
Net assets:		
Held in trust for scholarships	1,026,265	
Total net assets	\$ 1,026,265	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 13,012
Gifts and contributions	226,619
Total additions	239,631
 Deductions:	
Scholarships awarded	31,617
Change in net assets	208,014
Net assets at beginning of year	818,251
Net assets at end of year	\$ 1,026,265

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 113 classified employees and 147 certified full-time teaching personnel who provide services to 2,084 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) guidance issued on or before November 30, 1989, 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, 2011

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, 2011

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 are the District's major governmental funds:

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

D. Basis of Accounting

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

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

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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, 2011, but which were levied to finance fiscal year 2012 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, 2011, 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

F. Cash and Cash Equivalents

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

During fiscal year 2011, investments were limited to non-negotiable certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$19,987, which includes \$7,428 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 nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". 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, 2011

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, 2011, 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, 2011 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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

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

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

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

M. Prepayments

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

N. 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.

O. Unamortized Bond Issuance Costs and Bond Premium

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method. Unamortized bond issuance costs are recorded as a separate line item on the statement of net assets.

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

On the governmental fund financial statements, bond issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 12.

P. Estimates

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

Q. Interfund Activity

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

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, 2011

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 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Building Fund</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 4,385,105	\$ -	\$ -	\$ 722,376	\$ 5,107,481
Fund reclassifications:					
Public school support fund	90,681	-	-	(90,681)	-
Uniform school supplies fund	<u>60,140</u>	<u>-</u>	<u>-</u>	<u>(60,140)</u>	<u>-</u>
Total fund reclassifications	<u>150,821</u>	<u>-</u>	<u>-</u>	<u>(150,821)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 4,535,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 571,555</u>	<u>\$ 5,107,481</u>

The fund reclassifications did not have an effect on net assets as previously reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

	General Fund
Fund balance at June 30, 2010	\$ 4,921,156
Funds budgeted elsewhere	(698,114)
Restated fund balance at July 1, 2010	\$ 4,223,042

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 41,454
Stimulus Title II-D	237
Title I - disadvantaged children	30,306

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash in Segregated Accounts

The District has \$11,278 held in an account for employee medical savings. These funds are included below and are reported on the financial statement as “cash in segregated accounts”.

B. Investments in Segregated Accounts

At fiscal year end, \$398,820 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, 2011, the carrying amount of all District deposits was \$2,134,757. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$1,581,043 of the District’s bank balance of \$2,248,354 was exposed to custodial credit risk as discussed below, while \$667,311 was covered by the FDIC.

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

D. Investments

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
			<u>6 months or less</u>
STAR Ohio	\$ 23,117,198	\$	23,117,198
Common stock	23,468		-
Total	<u>\$ 23,140,666</u>	<u>\$</u>	<u>23,117,198</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 23,117,198	99.90
Common stock	<u>23,468</u>	<u>0.10</u>
Total	<u>\$ 23,140,666</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,134,757
Investments	23,140,666
Investments in segregated accounts	398,820
Cash in segregated accounts	<u>11,278</u>
Total	<u>\$ 25,685,521</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 24,529,294
Private-purpose trust fund	1,028,065
Agency funds	<u>128,162</u>
Total	<u>\$ 25,685,521</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund loans receivable/payable consisted of the following at June 30, 2011, as reported on the fund financial statements:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$927,736 in the general fund, \$138,124 in the debt service fund (a nonmajor governmental fund), \$20,857 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$53,532 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$708,481 in the general fund and \$26,218 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

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 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 210,922,550	97.25	\$ 207,616,090	96.99
Public utility personal	<u>5,971,360</u>	<u>2.75</u>	<u>6,433,860</u>	<u>3.01</u>
Total	<u>\$ 216,893,910</u>	<u>100.00</u>	<u>\$ 214,049,950</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.90		\$56.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 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	\$ 5,776,506
Income taxes	790,457
Accounts	4,124
Intergovernmental	10,339,673
Accrued interest	<u>499</u>
Total	<u>\$ 16,911,259</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year, with the exception of the Ohio Schools Facilities Commission intergovernmental receivable of \$9,900,642, which will be collected over the duration of the construction project.

NOTE 8 - INCOME TAX

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>07/01/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 348,364	\$ 449,311	\$ -	\$ 797,675
Construction in progress	-	727,652	-	727,652
Total capital assets, not being depreciated	<u>348,364</u>	<u>1,176,963</u>	<u>-</u>	<u>1,525,327</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,613,617	39,605	-	1,653,222
Buildings and building improvements	7,003,700	14,996	-	7,018,696
Furniture, fixtures and equipment	1,525,693	77,456	-	1,603,149
Vehicles	1,235,959	85,645	(50,700)	1,270,904
Textbooks	1,286,113	7,497	-	1,293,610
Total capital assets, being depreciated	<u>12,665,082</u>	<u>225,199</u>	<u>(50,700)</u>	<u>12,839,581</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,447,851)	(36,573)	-	(1,484,424)
Buildings and building improvements	(5,622,301)	(72,202)	-	(5,694,503)
Furniture, fixtures and equipment	(1,094,749)	(80,087)	-	(1,174,836)
Vehicles	(917,415)	(56,807)	45,630	(928,592)
Textbooks	(1,137,417)	(21,457)	-	(1,158,874)
Total accumulated depreciation	<u>(10,219,733)</u>	<u>(267,126)</u>	<u>45,630</u>	<u>(10,441,229)</u>
Governmental activities capital assets, net	<u>\$ 2,793,713</u>	<u>\$ 1,135,036</u>	<u>\$ (5,070)</u>	<u>\$ 3,923,679</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 80,909
Special	2,762
Vocational	2,243
<u>Support services:</u>	
Instructional staff	4,268
Fiscal	1,864
Business	12,343
Operation and maintenance	33,441
Pupil transportation	57,392
Central	1,060
Extracurricular	68,330
Food service operations	2,514
Total depreciation expense	<u>\$ 267,126</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - NOTES PAYABLE

	Balance Outstanding <u>07/01/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Tax anticipation notes	\$ 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 were paid from the general fund and had an interest rate of 4.35 percent. The notes were being repaid with income tax revenue and therefore were presented on the governmental funds balance sheet. At June 30, 2011, there are no future obligations on this debt.

NOTE 11 – CAPITAL LEASE OBLIGATION

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

Capital assets consisting of equipment have been capitalized in the amount of \$222,829 in the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$69,635, leaving a current book value of \$153,194. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2011 totaled \$44,283 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 54,944
2013	54,943
2014	<u>9,158</u>
Total minimum lease payments	119,045
Less: amount representing interest	<u>(10,078)</u>
Total	<u>\$ 108,967</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2011 consist of the following:

Governmental activities:	<u>Balance Outstanding 07/01/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/11</u>	<u>Amounts Due in One Year</u>
General obligation bonds:					
Series 2010A School Improvement Bonds					
Current interest serial bonds	\$ -	\$ 1,190,000	\$ -	\$ 1,190,000	\$ 150,000
Capital appreciation bonds	-	309,992	-	309,992	-
Accreted interest	-	24,473	-	24,473	-
Series 2010B Build America Bonds					
Current interest term bonds	-	<u>15,500,000</u>	-	<u>15,500,000</u>	-
Total general obligation bonds	-	<u>17,024,465</u>	-	<u>17,024,465</u>	<u>150,000</u>
Energy conservation bonds	315,000	-	(105,000)	210,000	105,000
Capital lease obligation	153,250	-	(44,283)	108,967	47,960
Compensated absences	<u>1,557,655</u>	<u>228,942</u>	<u>(285,409)</u>	<u>1,501,188</u>	<u>256,616</u>
Total long-term obligations	<u>\$ 2,025,905</u>	<u>\$ 17,253,407</u>	<u>\$ (434,692)</u>	<u>18,844,620</u>	<u>\$ 559,576</u>
				<u>706,559</u>	
				<u>\$ 19,551,179</u>	

At June 30, 2011, the District had \$17,550,394 of unexpended bond proceeds which will be used for the acquisition and construction of capital assets.

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

The issue is comprised of both current interest serial bonds, par value \$1,190,000, and capital appreciation bonds par value \$309,992. The interest rates on the current interest serial bonds range from 2.00% - 2.50%. The capital appreciation bonds mature on November 1, 2017 (stated interest rate 17.567%), November 1, 2018 (stated interest rate 17.567%), November 1, 2019 (stated interest rate 17.567%), November 1, 2020 (stated interest rate 17.567%) and November 1, 2021 (stated interest rate 17.567%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,380,000. Total accreted interest of \$24,473 for series 2010 A has been included on the statement of net assets at June 30, 2011.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year	Current Interest - Series 2010 A			Capital Appreciation - Series 2010 A		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 150,000	\$ 23,500	\$ 173,500	\$ -	\$ -	\$ -
2013	180,000	20,200	200,200	-	-	-
2014	190,000	16,500	206,500	-	-	-
2015	200,000	12,600	212,600	-	-	-
2016	230,000	8,300	238,300	-	-	-
2017 - 2021	240,000	3,000	243,000	262,547	817,453	1,080,000
2022	-	-	-	47,445	252,555	300,000
Total	\$ 1,190,000	\$ 84,100	\$ 1,274,100	\$ 309,992	\$ 1,070,008	\$ 1,380,000

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

Interest payments on the current interest bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2045. At June 30, 2011, the District had \$17,550,394 of unspent bond proceeds remaining on the Series 2010A and B bond issue.

The BABs mature on November 1, 2025, November 1, 2030, November 1, 2035, November 1, 2040 and November 1, 2045 in the amounts of \$1,390,000, \$2,355,000, \$3,130,000, \$3,855,000 and \$4,770,000, respectively. These BABs bear interest rates ranging from 5.05% to 6.90%. The District receives a direct payment subsidy from the United States Treasury equal to thirty-five percent of the corresponding interest payments due on the BABs. The District did not receive this subsidy during fiscal year 2011; however, a receivable has been recorded in the debt service fund for the federal subsidy due at year-end. The BABs are subject to optional redemption and extraordinary optional redemption prior to maturity, at the sole discretion of the District, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Fiscal Year</u>	<u>Current Interest - Series 2010 B</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 997,730	\$ 997,730
2013	-	997,730	997,730
2014	-	997,730	997,730
2015	-	997,730	997,730
2016	-	997,730	997,730
2017 - 2021	-	4,988,650	4,988,650
2022 - 2026	1,390,000	4,855,078	6,245,078
2027 - 2031	2,355,000	4,299,278	6,654,278
2032 - 2036	3,130,000	3,435,240	6,565,240
2037 - 2041	3,855,000	2,302,185	6,157,185
2042 - 2046	4,770,000	851,459	5,621,459
Total	\$ 15,500,000	\$ 25,720,540	\$ 41,220,540

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.

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation bonds:

<u>Fiscal Year Ending June 30,</u>	<u>Energy Conservation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 105,000	\$ 10,710	\$ 115,710
2013	105,000	5,355	110,355
Total	\$ 210,000	\$ 16,065	\$ 226,065

Capital lease obligations – See Note 11 for detail on the District's capital lease obligations.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011, are a voted debt margin of \$2,541,842 and an unvoted debt margin of \$214,050.

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 2011, two employees received this incentive. A liability of \$30,984 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, 2011

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 2011, 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	\$ 54,442,287
Electronic Data Processing Equipment	1,000	1,469,800
Automobile Liability	250/500	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	2,000,000
Employer's Liability	-	3,000,000

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

B. Workers' Compensation

For fiscal year 2011, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2A). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Benefits

In February 2010, the District joined the Wyandot Crawford Health Benefit Plan (WCHBP), a public entity risk pool currently operating as a common risk management and insurance program. The WCHBP 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, 2011

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 "*Media/Financial Reports*".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$313,128, \$328,741 and \$227,679, respectively; 57.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 2011, 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, 2011, 2010 and 2009 were \$1,086,276, \$1,059,740 and \$1,403,240, respectively; 82.59 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$46,152 made by the District and \$32,966 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, 2011, 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 Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 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 "Media/Financial Reports".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 2011, 1.43 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 2011, 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, 2011, 2010 and 2009 were \$76,867, \$49,650 and \$152,737, respectively; 57.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$20,151, \$19,550 and \$18,785, respectively; 57.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, 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, 2011, 2010 and 2009 were \$83,560, \$81,518 and \$80,249, respectively; 82.59 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 244,593
Net adjustment for revenue accruals	229,509
Net adjustment for expenditure accruals	514,545
Net adjustment for other sources/uses	(82,729)
Funds budgeted elsewhere	96,907
Adjustment for encumbrances	133,150
GAAP basis	<u>\$ 1,135,975</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 18 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to legal proceedings.

NOTE 19 - SET-ASIDES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or 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 and capital improvements. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ 18,350	\$ -
Current year set-aside requirement	301,241	301,241
Current year qualifying expenditures	(213,087)	(758,944)
Current year offsets	<u>-</u>	<u>(262,143)</u>
Total	<u>\$ 106,504</u>	<u>\$ (719,846)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 19 - SET-ASIDES - (Continued)

The District did not have sufficient current year qualifying disbursements to reduce the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This positive balance is therefore not being presented as being carried forward to the future fiscal year.

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

During fiscal year 2011, the District issued \$16,999,992 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$16,999,992 at June 30, 2011.

In addition to the set-aside requirements, the District had \$12,351 received from the State of Ohio that is restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for textbooks/instructional materials	\$ 106,504
Amount restricted for school bus purchases	<u>12,351</u>
 Total	 <u>\$ 118,855</u>

NOTE 20 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 102,453
Building	321,796
Classroom facilities	765,136
Other governmental	<u>153,241</u>
 Total	 <u>\$ 1,342,626</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 21 - CONTRACTUAL COMMITMENTS

As of June 30, 2011, the District was obligated for the following contracts:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Payments as of 6/30/2011</u>	<u>Contract Balance at 6/30/2011</u>
H.C. Nutting	\$ 5,900	\$ -	\$ 5,900
Bricker & Eckler LLP	11,736	7,863	3,873
Brumbaugh-Herrick, Inc.	550	-	550
Richland Engineering Ltd.	3,900	-	3,900
Kelstin Construction	12,400	-	12,400
MKC Associates, Inc.	1,614,767	498,409	1,116,358
Stan & Associates, Inc.	65,424	-	65,424
	<u>\$ 1,714,677</u>	<u>\$ 506,272</u>	<u>\$ 1,208,405</u>

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

<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	2011	10.553	\$106,181		\$106,181	
National School Lunch Program	2011	10.555	392,720	\$53,804	392,720	\$53,804
Total U.S. Department of Agriculture/Child Nutrition Cluster			498,901	53,804	498,901	53,804
<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	28,228		46,587	
	2011		268,067		261,003	
Total Title I Grants to Local Educational Agencies			296,295		307,590	
ARRA - Title I Grants to Local Educational Agencies	2010	84.389			5,947	
	2011		34,985		58,547	
Total ARRA - Title I Grants to Local Educational Agencies			34,985		64,494	
Total Title I Cluster			331,280		372,084	
Special Education Cluster:						
Special Education - Grants to States	2010	84.027	38,323		49,920	
	2011		376,965		397,337	
Total Special Education - Grants to States			415,288		447,257	
ARRA - Special Education Grants to States	2010	84.391	118,890		169,555	
	2011		185,243		163,994	
Total ARRA - Special Education Grants to States			304,133		333,549	
Total Special Education Cluster			719,421		780,806	
Safe and Drug-Free Schools and Communities - State Grants	2010	84.186			2,095	
Education Technology State Grants	2010	84.318	103		450	
Improving Teacher Quality State Grants	2010	84.367	6,598		18,640	
	2011		63,881		56,440	
Total Improving Teacher Quality State Grants			70,479		75,080	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	2010	84.394	184,180		274,264	
	2011		449,148		306,185	
Total ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants			633,328		580,449	
Race to the Top	2011	84.395	18,712		14,907	
Education Jobs Fund	2011	84.410	340,581		340,581	
Total U.S. Department of Education			2,113,904		2,166,452	
Totals			\$2,612,805	\$53,804	\$2,665,353	\$53,804

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, 2011**

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.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 13, 2012, wherein we noted the District restated its governmental funds' fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54. 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.

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

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

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 also noted a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 13, 2012.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

January 13, 2012



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 the 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, 2011. 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, Richland County, Ohio, 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, 2011.

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 not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 13, 2012.

We intend this report solely for the information and use of 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 13, 2012

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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)?	Yes
(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):	Special Education Cluster, CFDA 84.027 and 84.391; Education Jobs Fund, CFDA 84.410; ARRA - State Fiscal Stabilization Fund, CFDA 84.394.
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2011-001

Material Weakness

The following items were noted during financial statement testing:

- Contracts Payable was understated \$8,682 in the Building Fund and \$34,917 in the Classroom Facilities Fund, and Accounts Payable was understated \$7,941 in the Building Fund due to improperly excluding certain payments which should have been payables. These amounts were adjusted on the financial statements;
- Private Purpose Trust Fund investment in common stock was understated \$11,725 due to including only 400 shares of stock in the stock conversion calculation instead of the 800 shares owned by the District. This amount was adjusted on the financial statements.

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

Officials' Response:

Contracts Payable: This refers to outstanding items in the Locally Funded Initiatives (Classroom Facilities, Fund 004) and the OSFC Project Fund (Building Fund, Fund 010). We had initially sought the information from the Construction Manager. When they were unable to provide the information requested we based the item on a system report. Since we used the system report at the recommendation of our GAAP preparers, Julian & Grube, we assumed that the data was valid. In the future, we will follow the February 6, 2012 recommendation from Julian & Grube to track these items manually. In their recommendation, Julian & Grube reference the pay application process. Pending further input we're assuming that the expenses noted on the finding were not part of a Pay Application. As we move further into this project more of the expenses should be reflected on Pay Applications making this somewhat more structured process to track.

Common Stock: This refers to an investment in Allegheny Power System stock left to the District as a part of the Rhea Horner Estate in 1980. The initial bequest included 400 shares of Allegheny Power System Stock. The stock split 2-1 in 1993 for a total of 800 shares, and this was not reported in the most recent GAAP report.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on June 15, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 13, 2012

This page intentionally left blank.



Dave Yost • Auditor of State

SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2012**