



Dave Yost • Auditor of State



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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

March 6, 2015

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities decreased \$666,800 which represents a 4.13% decrease from 2013. This decrease is due to the completion of the District's Ohio School Facilities Commission project. The completion of the project reduced the District's investments and also resulted in reclassifying capital assets from construction in progress to their corresponding asset class, where they received depreciation for the first time during fiscal year 2014.
- General revenues accounted for \$17,629,491 in revenue or 79.55% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,531,883 or 20.45% of total revenues of \$22,161,374.
- The District had \$22,828,174 in expenses related to governmental activities; only \$4,531,883 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,629,491 were not adequate to provide for these programs.
- The District's major funds are the general fund and the classroom facilities fund. The general fund had \$18,177,653 in revenues and other financing sources and \$17,316,441 in expenditures. During fiscal year 2014, the general fund's fund balance increased \$861,212 from \$4,585,052 to \$5,446,264.
- The classroom facilities fund had \$577,893 in revenues and \$2,473,086 in expenditures. During fiscal year 2014, the classroom facilities fund's fund balance decreased \$1,895,193 from \$4,363,073 to \$2,467,880.

**Using these Basic Financial Statements**

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund 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, 2014  
(UNAUDITED)**

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all (non-fiduciary) assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

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

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-58 of this report.

**The District as a Whole**

The table below provides a summary of the District's net position for 2014 and 2013.

	<b>Net Position</b>	
	<u>Governmental Activities</u>	
	<u>2014</u>	<u>Restated 2013</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 17,877,702	\$ 21,948,052
Capital assets, net	<u>23,970,907</u>	<u>22,160,344</u>
Total assets	<u>41,848,609</u>	<u>44,108,396</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,230,194	3,836,312
Long-term liabilities	<u>18,968,839</u>	<u>19,092,226</u>
Total liabilities	<u>21,199,033</u>	<u>22,928,538</u>
<b><u>Deferred inflows</u></b>		
Property taxes levied for the next fiscal year	<u>5,164,660</u>	<u>5,028,142</u>
Total liabilities	<u>5,164,660</u>	<u>5,028,142</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	6,668,262	9,409,874
Restricted	4,223,778	2,874,735
Unrestricted	<u>4,592,876</u>	<u>3,867,107</u>
Total net position	<u>\$ 15,484,916</u>	<u>\$ 16,151,716</u>

Net position decreased \$666,800 or 4.13%, mainly due to the decrease in equity in pooled cash and cash equivalents and property taxes.

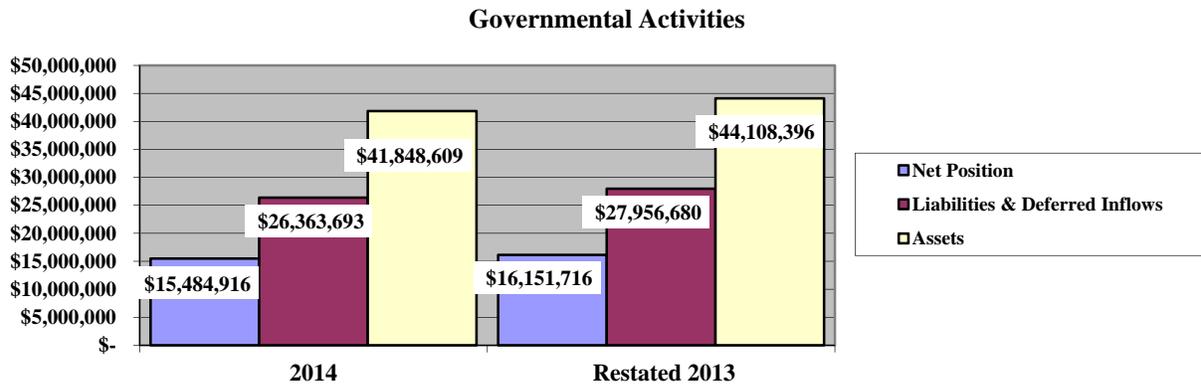
**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

At year end, capital assets represented 57.28% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. Net investment in capital assets at June 30, 2014, was \$6,668,262. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$4,223,778, represents resources that are subject to external restriction on how they may be used.

The graph below shows the District's assets, liabilities, deferred inflows and net position at June 30, 2014 and 2013:



**Governmental Activities**

Net position of the District's governmental activities decreased \$666,800. Total governmental expenses of \$22,828,174 were offset by program revenues of \$4,531,883 and general revenues of \$17,629,491. Program revenues supported 19.85% 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 79.36% of total governmental revenue. Real estate property is reappraised every six years.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The table below shows the change in net position for fiscal year 2014 and 2013.

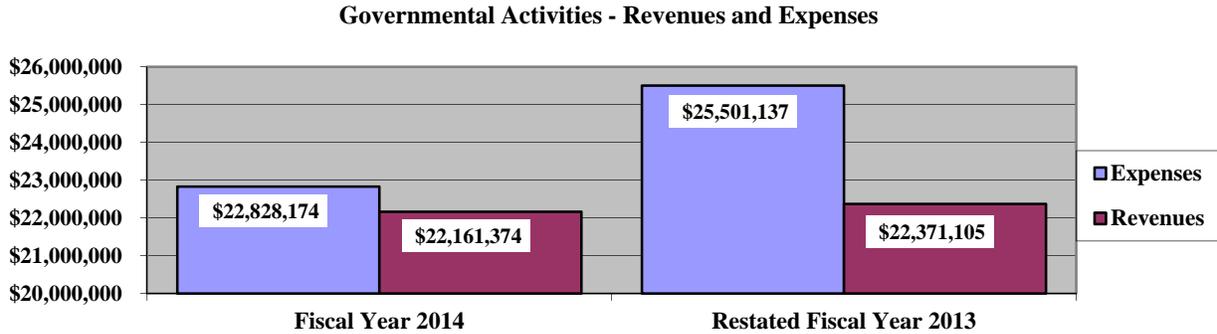
	<b>Change in Net Position</b>	
	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,165,155	\$ 1,321,642
Operating grants and contributions	3,274,053	3,106,593
Capital grants and contributions	92,675	450,104
General revenues:		
Property taxes	5,945,731	6,553,241
Income taxes	2,524,036	2,482,903
Grants and entitlements not restricted	9,117,755	8,416,107
Investment earnings	9,669	20,680
Miscellaneous	<u>32,300</u>	<u>19,835</u>
Total revenues	<u>22,161,374</u>	<u>22,371,105</u>

	<b>Change in Net Position</b>	
	<u>Governmental Activities</u>	
	<u>2014</u>	<u>Restated 2013</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	8,995,868	10,444,252
Special	3,364,782	2,846,910
Vocational	151,173	171,663
Other	25,644	-
Support services:		
Pupil	820,353	983,001
Instructional staff	986,375	1,415,856
Board of Education	71,408	101,203
Administration	1,366,469	1,561,294
Fiscal	710,183	848,455
Operations and maintenance	2,246,975	2,365,782
Pupil transportation	932,227	1,092,258
Central	184,296	139,440
Operation of non-instructional services:		
Other non-instructional services	143,502	163,037
Food service operations	1,080,325	1,193,487
Extracurricular activities	659,478	744,953
Interest and fiscal charges	<u>1,089,116</u>	<u>1,429,546</u>
Total expenses	<u>22,828,174</u>	<u>25,501,137</u>
Changes in net position	(666,800)	(3,130,032)
Net position at beginning of year (restated)	<u>16,151,716</u>	<u>19,281,748</u>
Net position at end of year	<u>\$ 15,484,916</u>	<u>\$ 16,151,716</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2014 and 2013.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>	Total Cost of Services <u>Restated 2013</u>	Net Cost of Services <u>Restated 2013</u>
Program expenses:				
Instruction:				
Regular	\$ 8,995,868	\$ 7,984,962	\$ 10,444,252	\$ 9,389,834
Special	3,364,782	1,767,401	2,846,910	1,783,860
Vocational	151,173	105,995	171,663	129,172
Other	25,644	25,644	-	-
Support services:				
Pupil	820,353	721,657	983,001	878,712
Instructional staff	986,375	967,899	1,415,856	787,885
Board of education	71,408	71,408	101,203	101,203
Administration	1,366,469	1,356,551	1,561,294	1,548,010
Fiscal	710,183	707,569	848,455	833,220
Operations and maintenance	2,246,975	2,159,986	2,365,782	2,138,244
Pupil transportation	932,227	864,168	1,092,258	1,002,065
Central	184,296	184,296	139,440	139,440
Operation of non-instructional services:				
Other non-instructional services	143,502	(19,258)	163,037	28,016
Food service operations	1,080,325	97,743	1,193,487	148,071
Extracurricular activities	659,478	535,217	744,953	619,535
Interest and fiscal charges	<u>1,089,116</u>	<u>765,053</u>	<u>1,429,546</u>	<u>1,095,531</u>
<b>Total expenses</b>	<u>\$ 22,828,174</u>	<u>\$ 18,296,291</u>	<u>\$ 25,501,137</u>	<u>\$ 20,622,798</u>

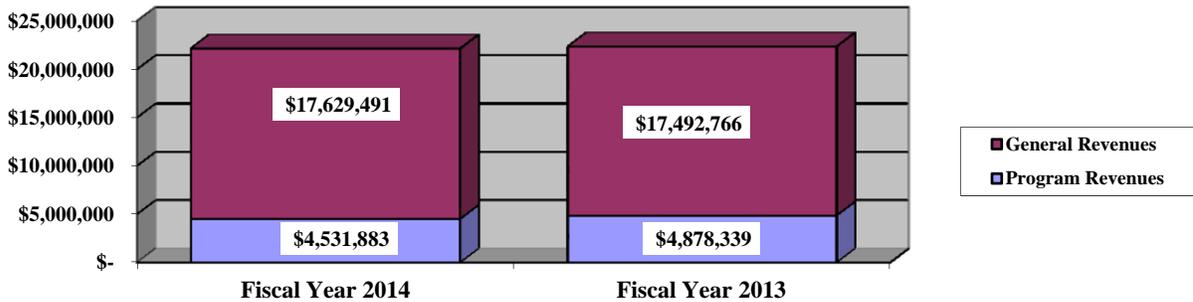
**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The dependence upon tax and other general revenues for governmental activities is apparent, as 78.84% of instruction activities in fiscal year 2014 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.15% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2014 and 2013.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$9,942,833, which is lower than last year's total of \$11,658,375. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance <u>June 30, 2014</u>	Fund Balance <u>June 30, 2013</u>	Increase (Decrease)	Percentage <u>Change</u>
General	\$ 5,446,264	\$ 4,585,052	\$ 861,212	18.78 %
Classroom facilities	2,467,880	4,363,073	(1,895,193)	(43.44) %
Other governmental	<u>2,028,689</u>	<u>2,710,250</u>	<u>(681,561)</u>	(25.15) %
Total	<u>\$ 9,942,833</u>	<u>\$ 11,658,375</u>	<u>\$ (1,715,542)</u>	(14.72) %

**General Fund**

The District's general fund balance increased \$861,212. Revenues of the general fund increased slightly during the fiscal year primarily due to an increase in state foundation and state poverty based assistance. Overall expenses remained comparable to the prior fiscal year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

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

	<u>2014</u> <u>Amount</u>	<u>2013</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 7,354,594	\$ 7,737,994	(4.95) %
Earnings on investments	8,660	9,215	(6.02) %
Intergovernmental	9,833,099	8,910,254	10.36 %
Other revenues	<u>764,405</u>	<u>817,123</u>	(6.45) %
 Total	 <u>\$ 17,960,758</u>	 <u>\$ 17,474,586</u>	 2.78 %
<b><u>Expenditures</u></b>			
Instruction	\$ 10,469,909	\$ 10,443,110	0.26 %
Support services	6,112,952	6,438,369	(5.05) %
Extracurricular activities	446,254	446,466	(0.05) %
Operation of non-instructional services	12,129	6,638	82.72 %
Capital outlay	216,895	-	(100.00) %
Debt service	<u>58,302</u>	<u>165,298</u>	(64.73) %
 Total	 <u>\$ 17,316,441</u>	 <u>\$ 17,499,881</u>	 (1.05) %

***Classroom Facilities Fund***

The classroom facilities fund had \$577,893 in revenues and \$2,473,086 in expenditures. During fiscal year 2014, the classroom facilities fund's fund balance decreased \$1,895,193 from \$4,363,073 to \$2,467,880 as a result of the District's ongoing Ohio School Facilities Commission construction project.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2014, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were both \$17,011,380. Final budgeted revenues and other financing sources were \$18,071,380. Actual revenues and other sources for fiscal year 2014 were \$18,064,693. This represents a \$6,687 decrease under final budgeted revenues. This decrease is primarily due to a decrease in income tax and intergovernmental state revenues.

General fund original appropriations of \$16,144,995 were increased to \$17,466,063 in the final appropriations. The actual budget basis expenditures for fiscal year 2014 totaled \$17,349,259, which were \$116,804 less than final budgeted appropriations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2014, the District had \$23,970,907 invested in land, 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 2014 balances compared to 2013.

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

	Governmental Activities	
	2014	Restated 2013
Land	\$ 793,364	\$ 793,364
Construction in progress	-	19,801,638
Land improvements	1,118,797	395,153
Buildings and building improvements	20,565,488	247,831
Furniture, fixtures and equipment	1,262,119	652,540
Vehicles	231,139	269,818
Total	\$ 23,970,907	\$ 22,160,344

The overall increase in capital assets of \$1,810,563 is due to capital outlays of \$2,943,701 exceeding depreciation expense of \$1,025,554 and disposals of \$107,587.

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

***Debt Administration***

At June 30, 2014, the District had \$177,831 in a capital lease obligation and \$16,724,330 in series 2010A and 2010B general obligation bonds outstanding. The series 2010A bonds consist of \$670,000 in current interest bonds and \$554,330 in capital appreciation bonds and accreted interest. The series 2010B general obligation current interest bonds had a balance of \$15,500,000 at June 30, 2014. Of the District's total obligations of \$16,902,161, \$241,188 is due within one year and \$16,660,973 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, 2014  
(UNAUDITED)**

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2014.

**Outstanding Long-Term Debt at June 30, 2014**

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
Series 2010A general obligation bonds	\$ 1,224,330	\$ 1,328,413
Series 2010B general obligation bonds	15,500,000	15,500,000
Capital lease obligation	<u>177,831</u>	<u>9,067</u>
Total	<u>\$ 16,902,161</u>	<u>\$ 16,837,480</u>

At June 30, 2014, the District's overall legal debt margin was \$2,361,791 with an unvoted debt margin of \$202,229. See Note 11 to the basic financial statements for additional information on the District's debt administration.

**Current Issues Affecting Financial Condition**

In the spring of 2014, negotiations on new contracts for certified and classified staff were completed. The certified staff received a three year contract with a 1.5% stipend in fiscal year 2015, a 1.5% increase to the base in fiscal year 2016 and a 1% increase to the base in fiscal year 2017. The classified contract is also a three year agreement with a 1% increase in fiscal year 2015, a 1.5% increase in fiscal year 2016 and a 1.5% stipend

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

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

**Contacting the School District's Financial Management**

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

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

**STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 9,807,900
Cash in segregated accounts . . . . .	29,792
Receivables:	
Property taxes . . . . .	6,449,959
Income taxes. . . . .	1,003,688
Accounts. . . . .	3,650
Accrued interest . . . . .	836
Intergovernmental . . . . .	410,259
Prepayments . . . . .	56,114
Materials and supplies inventory. . . . .	115,360
Due from an external party . . . . .	144
Capital assets:	
Land and construction in progress . . . . .	793,364
Depreciable capital assets, net. . . . .	23,177,543
Capital assets, net . . . . .	23,970,907
Total assets. . . . .	41,848,609
<b>Liabilities:</b>	
Accounts payable. . . . .	99,680
Contracts payable. . . . .	63,273
Accrued wages and benefits . . . . .	1,484,505
Pension obligation payable. . . . .	318,193
Intergovernmental payable . . . . .	98,587
Accrued interest payable . . . . .	165,956
Long-term liabilities:	
Due within one year. . . . .	430,522
Due in more than one year. . . . .	18,538,317
Total liabilities . . . . .	21,199,033
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	5,164,660
Total deferred inflows of resources . . . . .	5,164,660
<b>Net position:</b>	
Net investment in capital assets . . . . .	6,668,262
Restricted for:	
Capital projects . . . . .	3,503,937
Classroom facilities maintenance . . . . .	274,564
Debt service. . . . .	312,565
Locally funded programs . . . . .	29,743
State funded programs. . . . .	24,550
Federally funded programs . . . . .	24,258
Student activities . . . . .	41,810
Other purposes . . . . .	12,351
Unrestricted. . . . .	4,592,876
Total net position. . . . .	\$ 15,484,916

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, 2014

		Program Revenues				Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
<b>Governmental activities:</b>						
Instruction:						
Regular . . . . .	\$ 8,995,868	\$ 563,169	\$ 441,292	\$ 6,445	\$ (7,984,962)	
Special . . . . .	3,364,782	-	1,597,381	-	(1,767,401)	
Vocational . . . . .	151,173	-	45,178	-	(105,995)	
Other . . . . .	25,644	-	-	-	(25,644)	
Support services:						
Pupil. . . . .	820,353	48,274	50,422	-	(721,657)	
Instructional staff . . . . .	986,375	2,813	7,200	8,463	(967,899)	
Board of education . . . . .	71,408	-	-	-	(71,408)	
Administration. . . . .	1,366,469	4,883	5,035	-	(1,356,551)	
Fiscal. . . . .	710,183	-	-	2,614	(707,569)	
Operations and maintenance . . . . .	2,246,975	16,647	-	70,342	(2,159,986)	
Pupil transportation. . . . .	932,227	21,358	41,890	4,811	(864,168)	
Central . . . . .	184,296	-	-	-	(184,296)	
Operation of non-instructional services:						
Other non-instructional services . . . . .	143,502	6,773	155,987	-	19,258	
Food service operations . . . . .	1,080,325	392,011	590,571	-	(97,743)	
Extracurricular activities. . . . .	659,478	109,227	15,034	-	(535,217)	
Interest and fiscal charges . . . . .	1,089,116	-	324,063	-	(765,053)	
Total governmental activities . . . . .	<u>\$ 22,828,174</u>	<u>\$ 1,165,155</u>	<u>\$ 3,274,053</u>	<u>\$ 92,675</u>	<u>(18,296,291)</u>	
<b>General revenues:</b>						
Property taxes levied for:						
General purposes . . . . .					4,823,949	
Special revenue. . . . .					104,903	
Debt service. . . . .					738,522	
Capital outlay. . . . .					278,357	
Income taxes levied for:						
General purposes . . . . .					2,524,036	
Grants and entitlements not restricted to specific programs . . . . .					9,117,755	
Investment earnings . . . . .					9,669	
Miscellaneous . . . . .					32,300	
Total general revenues . . . . .					<u>17,629,491</u>	
Change in net position . . . . .					(666,800)	
<b>Net position at beginning of year (restated) .</b>					<u>16,151,716</u>	
<b>Net position at end of year . . . . .</b>					<u>\$ 15,484,916</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	General	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 5,385,293	\$ 2,480,767	\$ 1,929,489	\$ 9,795,549
Cash in segregated accounts . . . . .	14,697	12,771	2,324	29,792
Receivables:				
Property taxes . . . . .	5,249,365	-	1,200,594	6,449,959
Income taxes . . . . .	1,003,688	-	-	1,003,688
Accounts . . . . .	3,560	-	90	3,650
Intergovernmental . . . . .	99,582	105,694	204,983	410,259
Accrued interest . . . . .	836	-	-	836
Interfund loans . . . . .	17,591	-	-	17,591
Prepayments . . . . .	56,114	-	-	56,114
Materials and supplies inventory . . . . .	99,886	-	15,474	115,360
Due from other funds . . . . .	37,648	-	-	37,648
Due from an external party . . . . .	144	-	-	144
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	12,351	-	-	12,351
<b>Total assets . . . . .</b>	<b>\$ 11,980,755</b>	<b>\$ 2,599,232</b>	<b>\$ 3,352,954</b>	<b>\$ 17,932,941</b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 90,661	\$ -	\$ 9,019	\$ 99,680
Contracts payable . . . . .	-	56,743	6,530	63,273
Accrued wages and benefits . . . . .	1,319,546	-	164,959	1,484,505
Compensated absences payable . . . . .	26,772	-	-	26,772
Retirement incentive payable . . . . .	12,746	-	-	12,746
Interfund loans payable . . . . .	-	-	17,591	17,591
Intergovernmental payable . . . . .	86,251	-	12,336	98,587
Pension obligation payable . . . . .	267,254	-	50,939	318,193
Due to other funds . . . . .	-	-	37,648	37,648
<b>Total liabilities . . . . .</b>	<b>1,803,230</b>	<b>56,743</b>	<b>299,022</b>	<b>2,158,995</b>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . . . .	4,203,311	-	961,349	5,164,660
Delinquent property tax revenue not available . . . . .	279,365	-	63,894	343,259
Income tax revenue not available . . . . .	164,900	-	-	164,900
Intergovernmental revenue not available . . . . .	83,685	74,609	-	158,294
<b>Total deferred inflows of resources . . . . .</b>	<b>4,731,261</b>	<b>74,609</b>	<b>1,025,243</b>	<b>5,831,113</b>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory . . . . .	99,886	-	15,474	115,360
Prepays . . . . .	56,114	-	-	56,114
Restricted:				
Debt service . . . . .	-	-	684,074	684,074
Capital improvements . . . . .	-	2,467,880	942,449	3,410,329
Classroom facilities maintenance . . . . .	-	-	268,454	268,454
Non-public schools . . . . .	-	-	21,795	21,795
Targeted academic assistance . . . . .	-	-	20,196	20,196
Other purposes . . . . .	-	-	52,807	52,807
Extracurricular . . . . .	-	-	41,810	41,810
School bus purchases . . . . .	12,351	-	-	12,351
Committed:				
Student instruction . . . . .	2,426	-	-	2,426
Student and staff support . . . . .	7,535	-	-	7,535
Assigned:				
Student instruction . . . . .	15,243	-	-	15,243
Student and staff support . . . . .	196,028	-	-	196,028
Employee benefits . . . . .	1,139,810	-	-	1,139,810
Other purposes . . . . .	511	-	-	511
Unassigned (deficit) . . . . .	3,916,360	-	(18,370)	3,897,990
<b>Total fund balances . . . . .</b>	<b>5,446,264</b>	<b>2,467,880</b>	<b>2,028,689</b>	<b>9,942,833</b>
<b>Total liabilities, deferred inflows and fund balances . . . . .</b>	<b>\$ 11,980,755</b>	<b>\$ 2,599,232</b>	<b>\$ 3,352,954</b>	<b>\$ 17,932,941</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2014**

<b>Total governmental fund balances</b>		<b>\$ 9,942,833</b>
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,970,907
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 343,259	
Income taxes receivable	164,900	
Intergovernmental receivable	158,294	
Total	666,453	666,453
Unamortized premiums on bonds issued are not recognized in the funds.		(644,822)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(165,956)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(16,724,330)	
Capital lease obligations	(177,831)	
Compensated absences	(1,382,338)	
Total	(18,284,499)	(18,284,499)
<b>Net position of governmental activities</b>		<b>\$ 15,484,916</b>

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, 2014**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 4,828,896	\$ -	\$ 1,128,707	\$ 5,957,603
Income taxes . . . . .	2,525,698	-	-	2,525,698
Transportation fees . . . . .	20,781	-	-	20,781
Tuition . . . . .	466,578	-	-	466,578
Earnings on investments . . . . .	8,660	701	347	9,708
Charges for services . . . . .	-	-	392,011	392,011
Extracurricular . . . . .	69,390	-	109,227	178,617
Classroom materials and fees . . . . .	52,776	-	-	52,776
Rental income . . . . .	16,647	-	3,361	20,008
Contributions and donations . . . . .	11,880	-	37,192	49,072
Other local revenues . . . . .	126,353	-	103,954	230,307
Intergovernmental - state . . . . .	9,737,627	577,192	387,041	10,701,860
Intergovernmental - federal . . . . .	95,472	-	2,172,645	2,268,117
<b>Total revenues . . . . .</b>	<b>17,960,758</b>	<b>577,893</b>	<b>4,334,485</b>	<b>22,873,136</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,922,581	-	463,874	8,386,455
Special . . . . .	2,402,496	-	827,950	3,230,446
Vocational . . . . .	120,173	-	-	120,173
Other . . . . .	24,659	-	-	24,659
Support services:				
Pupil . . . . .	788,893	-	-	788,893
Instructional staff . . . . .	494,537	-	44,454	538,991
Board of education . . . . .	70,155	-	-	70,155
Administration . . . . .	1,327,024	-	-	1,327,024
Fiscal . . . . .	664,259	-	29,884	694,143
Operations and maintenance . . . . .	1,721,668	-	491,215	2,212,883
Pupil transportation . . . . .	869,197	-	15,789	884,986
Central . . . . .	177,219	-	-	177,219
Operation of non-instructional services:				
Other non-instructional services . . . . .	12,129	-	128,391	140,520
Food service operations . . . . .	-	-	991,769	991,769
Extracurricular activities . . . . .	446,254	-	136,747	583,001
Facilities acquisition and construction . . . . .	-	2,473,086	681,743	3,154,829
Capital outlay . . . . .	216,895	-	-	216,895
Debt service:				
Principal retirement . . . . .	48,131	-	190,000	238,131
Interest and fiscal charges . . . . .	10,171	-	1,014,230	1,024,401
<b>Total expenditures . . . . .</b>	<b>17,316,441</b>	<b>2,473,086</b>	<b>5,016,046</b>	<b>24,805,573</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	644,317	(1,895,193)	(681,561)	(1,932,437)
<b>Other financing sources:</b>				
Capital lease transaction . . . . .	216,895	-	-	216,895
<b>Total other financing sources . . . . .</b>	<b>216,895</b>	<b>-</b>	<b>-</b>	<b>216,895</b>
Net change in fund balances . . . . .	861,212	(1,895,193)	(681,561)	(1,715,542)
<b>Fund balances at beginning of year . . . . .</b>	<b>4,585,052</b>	<b>4,363,073</b>	<b>2,710,250</b>	<b>11,658,375</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ 5,446,264</b>	<b>\$ 2,467,880</b>	<b>\$ 2,028,689</b>	<b>\$ 9,942,833</b>

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, 2014**

**Net change in fund balances - total governmental funds** \$ (1,715,542)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$ 2,943,704	
Current year depreciation	<u>(1,025,554)</u>	
Total		1,918,150

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

(107,587)

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

Property taxes	(11,872)	
Income taxes	(1,662)	
Intergovernmental	<u>(670,898)</u>	
Total		(684,432)

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

General Obligation Bonds	190,000	
Capital leases	<u>48,131</u>	
Total		238,131

Issuances of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.

(216,895)

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

Decrease in accrued interest payable	623	
Accreted interest on capital appreciation bonds	(85,917)	
Amortization of bond premiums	<u>20,579</u>	
Total		(64,715)

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.

(33,910)

**Change in net position of governmental activities** **\$ (666,800)**

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 4,692,854	\$ 4,987,000	\$ 4,986,766	\$ (234)
Income taxes . . . . .	2,420,297	2,572,000	2,571,360	(640)
Transportation fees . . . . .	23,525	25,000	30,672	5,672
Tuition . . . . .	402,755	428,000	466,578	38,578
Earnings on investments . . . . .	9,410	10,000	7,486	(2,514)
Classroom materials and fees . . . . .	9,410	10,000	17,935	7,935
Rental income . . . . .	9,410	10,000	16,593	6,593
Contributions and donations . . . . .	941	1,000	6,037	5,037
Other local revenues . . . . .	18,068	19,200	22,103	2,903
Intergovernmental - state . . . . .	9,274,836	9,856,180	9,722,265	(133,915)
Intergovernmental - federal . . . . .	49,874	53,000	94,937	41,937
<b>Total revenues . . . . .</b>	<b><u>16,911,380</u></b>	<b><u>17,971,380</u></b>	<b><u>17,942,732</u></b>	<b><u>(28,648)</u></b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,581,930	8,202,322	8,121,888	80,434
Special . . . . .	2,510,332	2,715,740	2,375,855	339,885
Vocational . . . . .	229,011	247,750	119,320	128,430
Other . . . . .	23,109	25,000	24,659	341
Support services:				
Pupil . . . . .	684,583	740,599	695,570	45,029
Instructional staff . . . . .	571,986	618,789	574,165	44,624
Board of education . . . . .	73,298	79,296	72,464	6,832
Administration . . . . .	1,269,603	1,373,489	1,378,864	(5,375)
Fiscal . . . . .	626,576	677,846	682,356	(4,510)
Operations and maintenance . . . . .	1,433,780	1,551,099	1,819,092	(267,993)
Pupil transportation . . . . .	761,317	823,612	865,870	(42,258)
Central . . . . .	219,585	237,553	177,642	59,911
Extracurricular activities . . . . .	159,885	172,968	441,514	(268,546)
<b>Total expenditures . . . . .</b>	<b><u>16,144,995</u></b>	<b><u>17,466,063</u></b>	<b><u>17,349,259</u></b>	<b><u>116,804</u></b>
Excess of revenues over expenditures . . . . .	<u>766,385</u>	<u>505,317</u>	<u>593,473</u>	<u>88,156</u>
<b>Other financing sources:</b>				
Refund of prior year's expenditures . . . . .	60,000	60,000	121,281	61,281
Sale of capital assets . . . . .	40,000	40,000	680	(39,320)
<b>Total other financing sources . . . . .</b>	<b><u>100,000</u></b>	<b><u>100,000</u></b>	<b><u>121,961</u></b>	<b><u>21,961</u></b>
Net change in fund balance . . . . .	866,385	605,317	715,434	110,117
<b>Fund balance at beginning of year . . . . .</b>	<b>3,473,916</b>	<b>3,473,916</b>	<b>3,473,916</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>166,062</b>	<b>166,062</b>	<b>166,062</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 4,506,363</u></b>	<b><u>\$ 4,245,295</u></b>	<b><u>\$ 4,355,412</u></b>	<b><u>\$ 110,117</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents . . . . .	\$ 564,496	\$ 159,504
Investments in segregated accounts. . . . .	429,555	-
Investments in common stock. . . . .	18,506	-
Receivables:		
Accounts . . . . .	202	-
Total assets. . . . .	1,012,759	\$ 159,504
<b>Liabilities:</b>		
Accounts payable . . . . .	3,000	\$ 2,393
Pension obligation payable. . . . .	-	395
Due to an external party. . . . .	-	144
Due to students . . . . .	-	156,572
Total liabilities . . . . .	3,000	\$ 159,504
<b>Net position:</b>		
Held in trust for scholarships . . . . .	1,009,759	
Total net position. . . . .	\$ 1,009,759	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 3,188
Gifts and contributions . . . . .	63,736
Total additions . . . . .	66,924
 <b>Deductions:</b>	
Investment loss . . . . .	1,396
Scholarships awarded . . . . .	45,265
Total deductions . . . . .	46,661
 Change in net position . . . . .	20,263
<b>Net position at beginning of year . . . . .</b>	<b>989,496</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 1,009,759</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 104 classified employees and 132 certified full-time teaching personnel who provide services to 1,968 students and other community members.

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

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

**A. Reporting Entity**

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Pioneer Career and Technology Center (PCTC)

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

Metropolitan Educational Council (MEC)

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

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

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

*INSURANCE PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**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 and deferred outflows of resources are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

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

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, 2014  
(Continued)**

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**D. Basis of Accounting**

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

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

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

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

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, 2014  
(Continued)**

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

**E. Budgets**

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

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, 2014  
(Continued)**

**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, 2014  
(Continued)**

**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 2014, investments were limited to non-negotiable certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2014.

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund (a nonmajor governmental fund) and the classroom facilities fund individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$8,660, which includes \$5,248 assigned from other District funds.

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

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

**G. Inventory**

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**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 position, but are not reported in the fund financial statements.

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

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

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

**I. Interfund Balances**

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

**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, 2014  
(Continued)**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2014, 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, 2014 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

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

**L. Fund Balance**

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

*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, 2014  
(Continued)**

**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, 2014  
(Continued)**

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

**N. Net Position**

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

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

**O. Unamortized Bond Premium**

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

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

**P. Estimates**

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

**Q. Interfund Activity**

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

**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 18.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have either type of transaction during fiscal year 2014.

**NOTE 3 – ACCOUNTABILITY, COMPLIANCE AND AN ACCOUNTING CHANGE**

**A. Change in Accounting Principles**

For fiscal year 2014, the District has implemented GASB Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”*.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2014 included the following individual fund deficit:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 1,927
Special trust	34
IDEA Part-B	935

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

**C. Accounting Change**

The District had a re-valuation of capital assets by an appraisal company. In addition, the District chose to no longer capitalize textbooks. The re-valuation and elimination of the textbooks had the following effect on net position as previously reported:

Net Position Previously Reported, June 30, 2013	\$19,681,317
Depreciable Capital Assets	(3,397,863)
Removal of Textbooks	(131,738)
	<u>                  </u>
Restated Net Position, July 1, 2013	<u>\$16,151,716</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

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

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.

**A. Cash in Segregated Accounts**

The District has \$15,095 held in an account for retainage and \$14,697 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, \$429,555 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, 2014, the carrying amount of all District deposits was \$4,327,857. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$1,887,787 of the District's bank balance of \$4,565,090 was exposed to custodial risk as discussed below, while \$2,677,303 was covered by the FDIC.

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

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**D. Investments**

As of June 30, 2014, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 6,204,043	\$ 6,204,043
Common stock	<u>18,506</u>	<u>-</u>
Total	<u>\$ 6,222,549</u>	<u>\$ 6,204,043</u>

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

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

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 6,204,043	99.70
Common stock	<u>18,506</u>	<u>0.30</u>
Total	<u>\$ 6,222,549</u>	<u>100.00</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,327,857
Investments	6,222,549
Investments in segregated accounts	429,555
Cash in segregated accounts	<u>29,792</u>
Total	<u>\$ 11,009,753</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 9,837,692
Private-purpose trust fund	1,012,557
Agency funds	<u>159,504</u>
Total	<u>\$ 11,009,753</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

**A. Interfund Loans Receivable / Payable**

Interfund loans receivable/payable consisted of the following at June 30, 2014, as reported on the fund financial statements:

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

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

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

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

The District had the following amounts due to/from other funds at June 30, 2014:

<u>Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General	\$ 37,648	\$ -
Nonmajor governmental	<u>-</u>	<u>37,648</u>
Total	<u>\$ 37,648</u>	<u>\$ 37,648</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

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

The District had the following amounts due to/from an external party at June 30, 2014:

Fund	Due from external party	Due to external party
General	\$ 144	\$ -
Agency	-	144
Total	\$ 144	\$ 144

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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.

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$766,689 in the general fund, \$106,442 in the debt service fund (a nonmajor governmental fund), \$16,768 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$52,141 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2013 was \$924,559 in the general fund, \$149,424 in the debt service fund (a nonmajor governmental fund), \$20,172 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$60,703 in the permanent improvement fund (a nonmajor governmental fund). 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, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 196,657,940	96.37	\$ 194,453,110	96.15
Public utility personal	<u>7,411,830</u>	<u>3.63</u>	<u>7,776,090</u>	<u>3.85</u>
Total	<u>\$ 204,069,770</u>	<u>100.00</u>	<u>\$ 202,229,200</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$55.70		\$55.80	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2014 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net position follows:

**Governmental activities:**

Property taxes	\$ 6,449,959
Income taxes	1,003,688
Accounts	3,650
Accrued interest	836
Intergovernmental	<u>410,259</u>
Total	<u>\$ 7,868,392</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 \$105,694, 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  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Restated Balance <u>07/01/13</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/14</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 793,364	\$ -	\$ -	\$ 793,364
Construction in progress	19,801,638	2,943,704	(22,745,342)	-
Total capital assets, not being depreciated	<u>20,595,002</u>	<u>2,943,704</u>	<u>(22,745,342)</u>	<u>793,364</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,691,224	819,778	(5,000)	2,506,002
Buildings and building improvements	6,823,101	20,993,208	(892,459)	26,923,850
Furniture, fixtures and equipment	2,992,937	932,356	(70,311)	3,854,982
Vehicles	1,244,669	-	-	1,244,669
Total capital assets, being depreciated	<u>12,751,931</u>	<u>22,745,342</u>	<u>(967,770)</u>	<u>34,529,503</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,296,071)	(94,530)	3,396	(1,387,205)
Buildings and building improvements	(6,575,270)	(573,084)	789,992	(6,358,362)
Furniture, fixtures and equipment	(2,340,397)	(319,261)	66,795	(2,592,863)
Vehicles	(974,851)	(38,679)	-	(1,013,530)
Total accumulated depreciation	<u>(11,186,589)</u>	<u>(1,025,554)</u>	<u>860,183</u>	<u>(11,351,960)</u>
Governmental activities capital assets, net	<u>\$ 22,160,344</u>	<u>\$ 24,663,492</u>	<u>\$ (22,852,929)</u>	<u>\$ 23,970,907</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 329,789
Special	60,458
Vocational	7,802
Other	462
<u>Support services:</u>	
Pupil	14,764
Instructional staff	420,881
Administration	938
Operation and maintenance	24,582
Pupil transportation	31,848
Central	3,317
Extracurricular	63,184
Food service operations	67,529
Total depreciation expense	<u>\$ 1,025,554</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 10 - CAPITAL LEASE OBLIGATION**

During the current fiscal year and 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 GAAP, 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 \$439,724 in the statement of Net Position. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2014 totaled \$48,131 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2014:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 49,144
2016	49,144
2017	49,144
2018	<u>49,144</u>
Total minimum lease payments	196,576
Less: amount representing interest	<u>(18,745)</u>
Total	<u>\$ 177,831</u>

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2014 consist of the following:

<b>Governmental activities:</b>	Balance Outstanding 07/01/13	Additions	Reductions	Balance Outstanding 06/30/14	Amounts Due in One Year
General obligation bonds:					
Series 2010A School Improvement Bonds					
Current interest serial bonds	\$ 860,000	\$ -	\$ (190,000)	\$ 670,000	\$ 200,000
Capital appreciation bonds	309,992	-	-	309,992	-
Accreted interest	158,421	85,917	-	244,338	-
Series 2010B Build America Bonds					
Current interest term bonds	<u>15,500,000</u>	<u>-</u>	<u>-</u>	<u>15,500,000</u>	<u>-</u>
Total general obligation bonds	<u>16,828,413</u>	<u>85,917</u>	<u>(190,000)</u>	<u>16,724,330</u>	<u>200,000</u>
Capital lease obligation	9,067	216,895	(48,131)	177,831	41,188
Compensated absences	<u>1,589,345</u>	<u>242,816</u>	<u>(410,305)</u>	<u>1,421,856</u>	<u>189,334</u>
Total long-term obligations	<u>\$ 18,426,825</u>	<u>\$ 545,628</u>	<u>\$ (648,436)</u>	18,324,017	<u>\$ 430,522</u>
				<u>644,822</u>	
				<u>\$ 18,968,839</u>	

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

The issue is comprised of both current interest serial bonds, par value \$1,190,000, and capital appreciation bonds par value \$309,992. The interest rates on the current interest serial bonds range from 2.00% - 2.50%. The capital appreciation bonds mature on November 1, 2017 (stated interest rate 17.567%), November 1, 2018 (stated interest rate 17.567%), November 1, 2019 (stated interest rate 17.567%), November 1, 2020 (stated interest rate 17.567%) and November 1, 2021 (stated interest rate 17.567%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,380,000. Total accreted interest of \$244,338 for series 2010 A has been included on the statement of net position at June 30, 2014.

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

Fiscal Year	Current Interest - Series 2010 A			Capital Appreciation - Series 2010 A		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 200,000	\$ 12,600	\$ 212,600	\$ -	\$ -	\$ -
2016	230,000	8,300	238,300	-	-	-
2017	240,000	3,000	243,000	-	-	-
2018	-	-	-	77,538	172,462	250,000
2019	-	-	-	70,764	199,236	270,000
2020 - 2022	-	-	-	161,690	698,310	860,000
Total	<u>\$ 670,000</u>	<u>\$ 23,900</u>	<u>\$ 693,900</u>	<u>\$ 309,992</u>	<u>\$ 1,070,008</u>	<u>\$ 1,380,000</u>

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

Interest payments on the current interest bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2045.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

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

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

**SHELBY CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

Fiscal Year	Current Interest - Series 2010 B		
	Principal	Interest	Total
2015	\$ -	\$ 997,730	\$ 997,730
2016	-	997,730	997,730
2017	-	997,730	997,730
2018	-	997,730	997,730
2019	-	997,730	997,730
2020 - 2024	635,000	4,956,961	5,591,961
2025 - 2029	2,070,000	4,560,129	6,630,129
2030 - 2034	2,840,000	3,814,766	6,654,766
2035 - 2039	3,550,000	2,788,060	6,338,060
2040 - 2044	4,370,000	1,476,816	5,846,816
2045 - 2046	2,035,000	141,968	2,176,968
Total	\$ 15,500,000	\$ 22,727,350	\$ 38,227,350

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

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

**Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2014, are a voted debt margin of \$2,361,791 and an unvoted debt margin of \$202,229.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 12 - COMPENSATED ABSENCES**

**A. Compensated Absences**

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

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

**B. Retirement Incentive**

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education Meeting. In fiscal year 2014, one employee received this incentive. A liability of \$12,746 was recorded on the governmental fund financial statements. This amount is included as a component of compensated absences in the long-term obligations.

**NOTE 13 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, 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	\$ 67,371,586
Electronic Data Processing Equipment	500	Full
Automobile Liability	1,000/1,000	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	3,000,000
Employer's Liability	-	3,000,000

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**B. Workers' Compensation**

For fiscal year 2014, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2A). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

**C. Employee Health Benefits**

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

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

**NOTE 14 - PENSION PLANS**

**A. School Employees Retirement System**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 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, 2014, 2013 and 2012 were \$335,888, \$343,839 and \$333,655, respectively; 82.42 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 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 14 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, 2014, 2013 and 2012 were \$977,650, \$1,023,419 and \$1,063,090, respectively; 82.70 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$59,848 made by the District and \$47,023 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, 2014 certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 15 - 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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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, 2014, 2013 and 2012 were \$48,411, \$43,656 and \$54,496, respectively; 82.42 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2014, 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, 2014, 2013, and 2012 were \$19,487, \$19,423 and \$19,704, respectively; 82.42 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, 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, 2014, 2013 and 2012 were \$75,204, \$78,725 and \$81,776, respectively; 82.70 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 715,434
Net adjustment for revenue accruals	(193,284)
Net adjustment for expenditure accruals	56,400
Net adjustment for other sources/uses	94,934
Funds budgeted elsewhere	43,512
Adjustment for encumbrances	144,216
GAAP basis	\$ 861,212

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 17 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is not party to legal proceedings.

**NOTE 18 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2014	\$ -
Current year set-aside requirement	340,040
Current year qualifying expenditures	(121,287)
Current year offsets	<u>(286,587)</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<u>\$ -</u>

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

A schedule of the restricted assets at June 30, 2014 follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**NOTE 19 - OTHER COMMITMENTS**

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 110,724
Classroom facilities	49,640
Other governmental	<u>210,297</u>
Total	<u>\$ 370,661</u>

**NOTE 20 - SUBSEQUENT EVENT**

On October 23, 2014, the District issued Refunding Bonds, Series 2014, in the amount of \$15,315,000. These bonds bear variable interest rates and mature on November 1, 2045.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 57,520	\$ 57,520
Cash Assistance:			
School Breakfast Program	10.553	112,788	112,788
National School Lunch Program	10.555	409,637	409,637
Total Child Nutrition Cluster		<u>579,945</u>	<u>579,945</u>
Total U.S. Department of Agriculture		<u><b>579,945</b></u>	<u><b>579,945</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	379,707	397,930
Special Education Grants to States	84.027	448,907	452,269
Improving Teacher Quality State Grants	84.367	83,796	80,631
ARRA - Race to the Top, Recovery Grant	84.395	273,528	347,457
Total U.S. Department of Education		<u><b>1,185,938</b></u>	<u><b>1,278,287</b></u>
<b>Total</b>		<u><b>\$ 1,765,883</b></u>	<u><b>\$ 1,858,232</b></u>

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

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2015, wherein we noted the 2013 financial statements have been restated to correct a misstatement.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



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

March 6, 2015



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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:

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

We have audited the Shelby City School District's, Richland County, Ohio (the District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

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

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

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

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

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

In our opinion, the Shelby City School District, Richland County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as items 2014-001 through 2014-003. These findings did not require us to modify our compliance opinion on each major federal program.

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

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

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2014-002 through 2014-003 to be material weaknesses.

Shelby City School District  
Richland County  
Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Federal Program and on Internal Control Over  
Compliance Required By OMB Circular A-133  
Page 3

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

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

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

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

March 6, 2015

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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA # 10.553 & 10.555 – Child Nutrition Cluster CFDA # 84.027 – Special Education Grants to States CFDA # 84.395 – Race to the Top
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

None

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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**Federal Filing**

<b>Finding Number</b>	2014-001
<b>CFDA Title and Number</b>	CFDA # 10.553 & 10.555 – Child Nutrition Cluster CFDA # 84.0027 – Special Education Grants to States CFDA # 84.395 – Race to the Top
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance**

**Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section .200(b)** provides that a non-federal entity that expends \$500,000 or more in a year in federal awards shall have a single audit conducted as discussed in the Circular. Section .105 defines such entities as “auditees”. **Section .300(a)** states, an auditee shall “Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal programs and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity.”

**Section .300(e)** further states, an auditee shall “Ensure that the audits required by this part are properly performed and submitted when due.” **Section .320(a)** provides that single audits shall be completed and a reporting package submitted to the federal clearinghouse designated by OMB, within the earlier of 30 days after receipt of the auditor’s report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The School District expended in excess of \$500,000 in federal awards during the fiscal year ended June 30, 2013; however, due to the timing of the audit, the District did not file their report with the Federal Audit Clearinghouse until April 28, 2014, which is past the March 31 filing deadline.

We recommend the School District develop procedures for timely submission of their A-133 reporting package.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Nutrition Cluster Special Tests and Provisions – Paid Lunch Equity**

<b>Finding Number</b>	Finding 2014-002
<b>CFDA Title and Number</b>	Child Nutrition Cluster, #10.553 & #10.555
<b>Federal Award Year</b>	2014
<b>Federal Agency</b>	U.S. Department of Agriculture; U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Material Weakness**

**7 CFR Section 210.14(e)** indicates for each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

- (1) *Calculation procedures.* Each school food authority shall:
- (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.
  - (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (*i.e.*, the reimbursement difference);
  - (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section.
- (2) *Average paid lunch price is equal to/ greater than the reimbursement difference.* When the average paid lunch price from the prior school year is equal to or greater than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average paid lunch price for the current school year that is not less than the difference identified in (e)(1)(iii) of this section; except that, the school food authority may use the procedure in paragraph (e)(4)(ii) of this section when establishing prices of paid lunches.
- (3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding 2 percent and the percentage change in the Consumer Price Index for All Urban Consumers.

The District did not complete a Weighted Average Price Adjustment Calculator to ensure their lunch prices were following the Federal standards as required, and as a result, did not meet the weighted average price per the USDA. In addition, per review of the financial statements, the District did not subsidize the food service fund with non-federal sources.

We recommend the District complete and use the Weighted Average Price Adjustment Calculator to ensure the proper charge to non free and reduced lunch students are being applied, subsidize the food service fund with contributions from non-federal sources, or obtain a waiver from the Ohio Department of Education if the District feels they are in strong financial position.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014  
(Continued)**

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

<b>Finding Number</b>	Finding 2014-003
<b>CFDA Title and Number</b>	ARRA – Race to the Top, Recovery Grant, # 84.395
<b>Federal Award Year</b>	2014
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Material Weakness**

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

Our Race to the Top Federal grant testing identified excess cash on hand at month end. The fiscal year 2013 New Tech grant had a balance of \$26,141 on July 1, 2013 and by the end of the year had only spent \$22,423. In addition, the fiscal year 2014 New Tech grant received \$190,215 in November 2013, resulting in a November 2013 ending balance of \$24,898, which did not get fully spent until June 2014. As a result of the excess cash on hand, more than \$100 of interest was earned on the Race to the Top grant during the year.

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

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2014**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2014-001	We will work with the audit team in the future to ensure timely filing.	FY 2014 audit	Elizabeth Anatra, Treasurer
2014-002	The weighted average price will be calculated. We will be sure that lunch prices meet federal standards.	FY 2015 school year	Richard Hostetler, Food Service Director and Elizabeth Anatra, Treasurer
2014-003	We will try to ensure that we will only request those funds needed for immediate expenditures to eliminate excess cash on hand.	Immediately	Elizabeth Anatra, Treasurer and Paul Walker, Grants Coordinator

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Nutrition Cluster Eligibility – Noncompliance/Significant Deficiency	Yes	
2013-002	Nutrition Cluster Verification – Noncompliance/Material Weakness	Yes	
2013-003	Race to the Top Cash Management – Noncompliance/Material Weakness	No	Repeated as finding number 2014-003



# 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  
APRIL 7, 2015**