



Dave Yost • Auditor of State

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	21
Notes to the Basic Financial Statements	23
Federal Awards Receipts and Expenditures Schedule.....	57
Notes to the Federal Awards Receipts and Expenditures Schedule	58
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	59
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	61
Schedule of Findings.....	63
Schedule of Prior Audit Findings.....	64

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Federal Awards Receipts and Expenditures Schedule

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



Dave Yost
Auditor of State

January 25, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$13,528 which represents a 0.07% decrease from 2011.
- General revenues accounted for \$16,972,368 in revenue or 79.01% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,508,229 or 20.99% of total revenues of \$21,480,597.
- The District had \$21,494,125 in expenses related to governmental activities; only \$4,508,229 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 \$16,972,368 were not adequate to provide for these programs.
- The District's major funds are the general fund, the building fund, and the classroom facilities fund. The general fund had \$16,872,873 in revenues and \$17,934,427 in expenditures. During fiscal year 2012, the general fund's fund balance decreased \$1,061,554 from \$5,671,901 to \$4,610,347.
- The building fund had \$107,592 in revenues and \$1,076,673 in expenditures. During fiscal year 2012, the building fund's fund balance decreased \$969,081 from \$5,822,024 to \$4,852,943.
- The classroom facilities fund had \$6,211,147 in revenues and \$5,531,039 in expenditures. During fiscal year 2012, the classroom facilities fund's fund balance increased \$680,108 from \$11,632,629 to \$12,312,737.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all (non-fiduciary) assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-56 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2012 and 2011.

	Net Assets	
	Governmental Activities	
	2012	2011
<u>Assets</u>		
Current and other assets	\$ 36,965,094	\$ 41,968,372
Capital assets, net	10,634,284	3,923,679
Total assets	47,599,378	45,892,051
<u>Liabilities</u>		
Current liabilities	8,939,131	7,045,596
Long-term liabilities	19,378,499	19,551,179
Total liabilities	28,317,630	26,596,775
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,212,112	3,448,555
Restricted	6,397,959	11,440,225
Unrestricted	3,671,677	4,406,496
Total net assets	\$ 19,281,748	\$ 19,295,276

Net assets decreased \$13,528 or 0.07%, mainly due the slight increase in expenses exceeding the District's revenues.

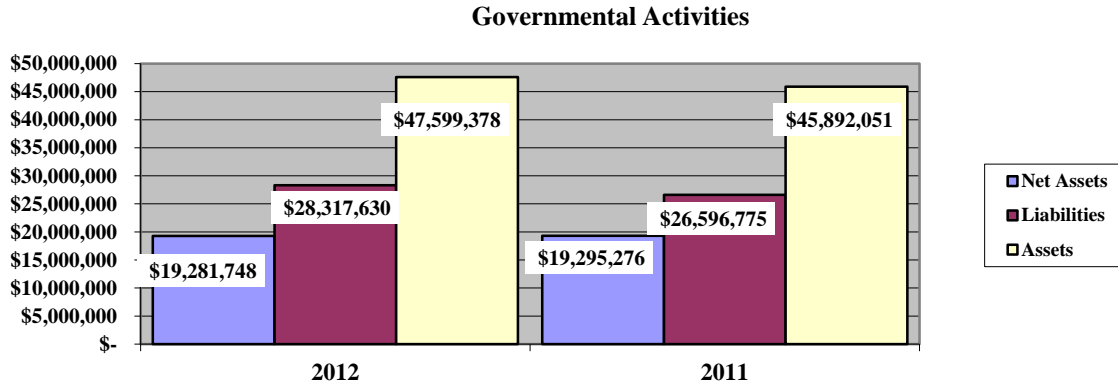
At year end, capital assets represented 22.34% of total assets. Capital assets include land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$9,212,112. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$6,397,959, represents resources that are subject to external restriction on how they may be used.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The graph below shows the District's assets, liabilities and net assets at June 30, 2012 and 2011:



Governmental Activities

Net assets of the District's governmental activities decreased \$13,528. Total governmental expenses of \$21,494,125 were offset by program revenues of \$4,508,229 and general revenues of \$16,972,368. Program revenues supported 20.97% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 78.75% of total governmental revenue. Real estate property is reappraised every six years.

The table below shows the change in net assets for fiscal year 2012 and 2011.

	Change in Net Assets	
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,199,516	\$ 1,253,186
Operating grants and contributions	3,190,453	3,976,258
Capital grants and contributions	118,260	-
General revenues:		
Property taxes	5,512,035	5,911,761
Income taxes	2,654,725	2,340,242
Grants and entitlements not restricted	8,748,525	8,695,703
Grants and entitlements restricted for Ohio School Facilities Commission	-	11,081,198
Investment earnings	20,549	27,979
Capital contributions	-	450,000
Miscellaneous	36,534	72,947
Total revenues	<u>21,480,597</u>	<u>33,809,274</u>

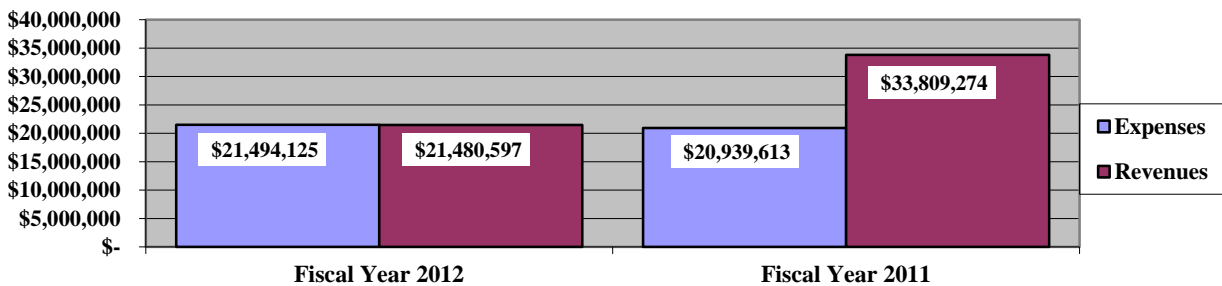
**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	<u>Change in Net Assets</u> <u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	8,573,354	8,398,198
Special	2,320,074	2,367,435
Vocational	36,725	220,166
Other	-	20,876
Support services:		
Pupil	868,421	822,463
Instructional staff	1,422,285	1,669,009
Board of Education	55,860	60,192
Administration	1,404,447	1,331,934
Fiscal	689,505	671,260
Business	5,143	12,343
Operations and maintenance	1,833,888	1,749,559
Pupil transportation	981,268	979,203
Central	344,701	103,370
Operation of non-instructional services:		
Other non-instructional services	149,346	138,789
Food service operations	1,043,247	1,044,202
Extracurricular activities	676,519	670,172
Interest and fiscal charges	1,089,342	680,442
Total expenses	<u>21,494,125</u>	<u>20,939,613</u>
Changes in net assets	(13,528)	12,869,661
Net assets at beginning of year	<u>19,295,276</u>	<u>6,425,615</u>
Net assets at end of year	<u>\$ 19,281,748</u>	<u>\$ 19,295,276</u>

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2012 and 2011.

Governmental Activities - Revenues and Expenses



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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

	Governmental Activities			
	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses:				
Instruction:				
Regular	\$ 8,573,354	\$ 6,933,153	\$ 8,398,198	\$ 6,786,628
Special	2,320,074	1,901,889	2,367,435	1,127,755
Vocational	36,725	(5,766)	220,166	177,675
Other	-	-	20,876	(1,902)
Support services:				
Pupil	868,421	759,667	822,463	715,214
Instructional staff	1,422,285	964,920	1,669,009	1,130,497
Board of education	55,860	55,860	60,192	60,192
Administration	1,404,447	1,397,933	1,331,934	1,328,915
Fiscal	689,505	689,246	671,260	671,260
Business	5,143	5,143	12,343	12,343
Operations and maintenance	1,833,888	1,778,776	1,749,559	1,605,542
Pupil transportation	981,268	907,400	979,203	910,936
Central	344,701	344,701	103,370	96,461
Operation of non-instructional services:				
Other non-instructional services	149,346	(2,881)	138,789	3,660
Food service operations	1,043,247	(19,399)	1,044,202	28,203
Extracurricular activities	676,519	535,118	670,172	534,460
Interest and fiscal charges	<u>1,089,342</u>	<u>740,136</u>	<u>680,442</u>	<u>522,330</u>
 Total expenses	 <u>\$ 21,494,125</u>	 <u>\$ 16,985,896</u>	 <u>\$ 20,939,613</u>	 <u>\$ 15,710,169</u>

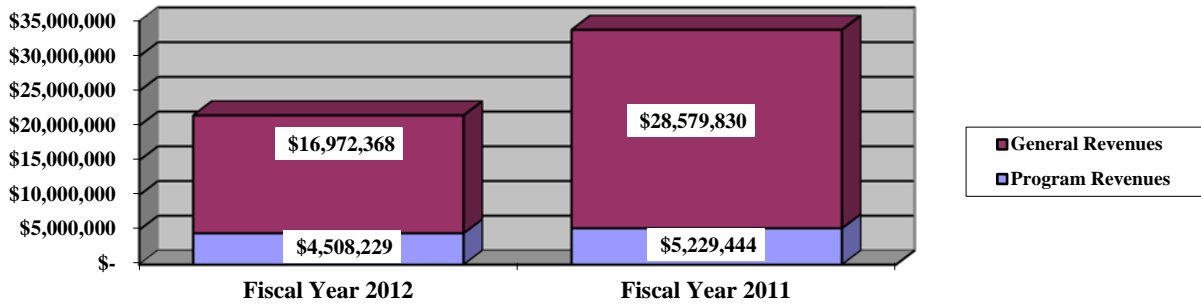
The dependence upon tax and other general revenues for governmental activities is apparent, as 80.78% of instruction activities in fiscal year 2012 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.03% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$23,301,505, which is lower than last year's total of \$24,229,462. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	<u>Fund Balance June 30, 2012</u>	<u>Fund Balance June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 4,610,347	\$ 5,671,901	\$ (1,061,554)	(18.72) %
Building	4,852,943	5,822,024	(969,081)	(16.65) %
Classroom facilities	12,312,737	11,632,629	680,108	5.85 %
Other governmental	<u>1,525,478</u>	<u>1,102,908</u>	<u>422,570</u>	38.31 %
Total	<u>\$ 23,301,505</u>	<u>\$ 24,229,462</u>	<u>\$ (927,957)</u>	(3.83) %

General Fund

The District's general fund balance decreased \$1,061,554. Revenues of the general fund decreased slightly during the fiscal year primarily due to a decrease in tax revenue and a decrease in earnings on investments. Tax revenue decreased 7.49% due to the timing of collections by the Richland County auditor. Earnings on investments decreased 58.25% due to decreased interest rates.

Instruction expenses increased 11.59% primarily due to increase in personnel costs. All other 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, 2012
(UNAUDITED)

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

	2012 <u>Amount</u>	2011 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 6,934,704	\$ 7,496,404	(7.49) %
Earnings on investments	8,344	19,987	(58.25) %
Intergovernmental	9,253,947	9,267,139	(0.14) %
Other revenues	<u>675,878</u>	<u>747,944</u>	(9.64) %
 Total	 <u>\$ 16,872,873</u>	 <u>\$ 17,531,474</u>	 (3.76) %
<u>Expenditures</u>			
Instruction	\$ 10,329,381	\$ 9,256,702	11.59 %
Support services	6,939,924	6,481,983	7.06 %
Extracurricular activities	465,599	469,011	(0.73) %
Operation of non-instructional services	10,969	6,596	66.30 %
Facilities acquisition and construction	17,900	-	100.00 %
Debt service	<u>170,654</u>	<u>181,207</u>	(5.82) %
 Total	 <u>\$ 17,934,427</u>	 <u>\$ 16,395,499</u>	 9.39 %

Building Fund

The building fund had \$107,592 in revenues and \$1,076,673 in expenditures. During fiscal year 2012, the building fund's fund balance decreased \$969,081 from \$5,822,024 to \$4,852,943.

Classroom Facilities Fund

The classroom facilities fund had \$6,211,147 in revenues and \$5,531,039 in expenditures. During fiscal year 2012, the classroom facilities fund's fund balance increased \$680,108 from \$11,632,629 to \$12,312,737.

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 2012, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$16,408,091 and were increased to final budgeted revenues and financing sources of \$16,598,230 during the year. Actual revenues and other sources for fiscal year 2012 were \$17,015,729. This represents a \$417,499 increase over final budgeted revenues. This increase is primarily due to an increase in property tax receipts.

General fund original appropriations of \$17,871,042 were decreased to \$17,823,545 in the final appropriations. The actual budget basis expenditures for fiscal year 2012 totaled \$17,516,401, which was \$307,144 less than final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$10,634,284 invested in land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and textbooks. This entire amount is reported in governmental activities.

The following table shows fiscal year 2012 balances compared to 2011.

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

	Governmental Activities	
	2012	2011
Land	\$ 797,675	\$ 797,675
Construction in progress	7,461,901	727,652
Land improvements	149,676	168,798
Buildings and building improvements	1,436,850	1,324,193
Furniture, fixtures and equipment	365,089	428,313
Vehicles	289,856	342,312
Textbooks	133,237	134,736
Total	\$ 10,634,284	\$ 3,923,679

The overall increase in capital assets of \$6,710,605 is due to capital outlays amounting to \$6,960,029 exceeding depreciation expense of \$243,850 and current year disposals, net of depreciation, of \$5,574.

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

Debt Administration

At June 30, 2012, the District had \$61,007 in a capital lease obligation, \$105,000 in energy conservation bonds and \$16,935,811 in series 2010A and 2010B bonds outstanding. The series 2010A bonds consist of \$1,040,000 in current interest bonds and \$395,811 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, 2012. Of the District's total obligations of \$17,101,818, \$336,940 is due within one year and \$16,764,878 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, 2012
(UNAUDITED)

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2012.

Outstanding Long-Term Debt at June 30, 2011

	Governmental Activities 2012	Governmental Activities 2011
Energy conservation bonds	\$ 105,000	\$ 210,000
Series 2010A general obligation bonds	1,435,811	1,524,465
Series 2010B general obligation bonds	15,500,000	15,500,000
Capital lease obligation	61,007	108,967
Total	\$ 17,101,818	\$ 17,343,432

At June 30, 2012, the District's overall legal debt margin was \$2,037,532 with an unvoted debt margin of \$204,713.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

Current Issues Affecting Financial Condition

During fiscal year 2008, the District was released from fiscal emergency. In the spring of 2011, negotiations on new contracts for certified and classified staff were completed. The certified staff received a three year contract with no increases in 2012. The classified contract specifies 2% increases in fiscal year 2012 and was re-negotiated in the summer of 2012 for the period June 2012 – June 2014 with no increase to the base salary in either year.

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

A five year 4.5 mill emergency levy was renewed in November 2011. The district is on the November 2012 ballot for an additional 7.5 mill five year emergency operating levy.

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.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

		Governmental Activities
Assets:		
Equity in pooled cash and cash equivalents . . .	\$	25,447,804
Cash in segregated accounts		119,217
Receivables:		
Property taxes		5,792,143
Income taxes.		1,000,154
Accounts.		5,055
Intergovernmental		4,064,872
Accrued interest		493
Prepayments		77,304
Materials and supplies inventory		105,803
Unamortized bond issuance costs.		352,249
Capital assets:		
Land and construction in progress		8,259,576
Depreciable capital assets, net		2,374,708
Capital assets, net.		<u>10,634,284</u>
Total assets.		<u>47,599,378</u>
Liabilities:		
Accounts payable.		132,314
Contracts payable.		1,486,025
Retainage payable		188,978
Accrued wages and benefits		1,732,740
Pension obligation payable		399,973
Intergovernmental payable		97,110
Unearned revenue		4,734,398
Accrued interest payable		167,593
Long-term liabilities:		
Due within one year		711,455
Due in more than one year.		<u>18,667,044</u>
Total liabilities		<u>28,317,630</u>
Net Assets:		
Invested in capital assets, net		
of related debt		9,212,112
Restricted for:		
Capital projects		5,260,146
Classroom facilities maintenance		345,282
Debt service		416,015
Locally funded programs		35,714
State funded programs.		48,400
Federally funded programs.		212,303
Student activities		64,011
Other purposes.		16,088
Unrestricted.		<u>3,671,677</u>
Total net assets	\$	<u>19,281,748</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction:					
Regular	\$ 8,573,354	\$ 426,539	\$ 1,106,574	\$ 107,088	\$ (6,933,153)
Special	2,320,074	-	418,185	-	(1,901,889)
Vocational.	36,725	-	42,491	-	5,766
Support services:					
Pupil.	868,421	70,756	37,998	-	(759,667)
Instructional staff	1,422,285	-	456,037	1,328	(964,920)
Board of education.	55,860	-	-	-	(55,860)
Administration.	1,404,447	4,246	2,268	-	(1,397,933)
Fiscal.	689,505	-	-	259	(689,246)
Business.	5,143	-	-	-	(5,143)
Operations and maintenance.	1,833,888	46,770	-	8,342	(1,778,776)
Pupil transportation	981,268	34,659	37,966	1,243	(907,400)
Central.	344,701	-	-	-	(344,701)
Operation of non-instructional services:					
Other non-instructional services.	149,346	6,715	145,512	-	2,881
Food service operations	1,043,247	471,951	590,695	-	19,399
Extracurricular activities	676,519	137,880	3,521	-	(535,118)
Interest and fiscal charges.	1,089,342	-	349,206	-	(740,136)
Totals.	\$ 21,494,125	\$ 1,199,516	\$ 3,190,453	\$ 118,260	(16,985,896)

General Revenues:

Property taxes levied for:	
General purposes	4,459,493
Special revenue	168,169
Debt service.	618,389
Capital outlay	265,984
Income taxes levied for general purposes	2,654,725
Grants and entitlements not restricted to specific programs	8,748,525
Investment earnings	20,549
Miscellaneous	36,534
Total general revenues	16,972,368
Change in net assets	(13,528)
Net assets at beginning of year.	19,295,276
Net assets at end of year	\$ 19,281,748

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 5,272,362	\$ 4,925,276	\$ 13,733,294	\$ 1,504,521	\$ 25,435,453
Cash in segregated accounts	10,106	19,640	89,471	-	119,217
Receivables:					
Property taxes	4,712,636	-	-	1,079,507	5,792,143
Income taxes	1,000,154	-	-	-	1,000,154
Accounts	4,513	-	-	542	5,055
Intergovernmental	126,595	-	3,761,300	176,977	4,064,872
Accrued interest	493	-	-	-	493
Interfund loans	17,591	-	-	-	17,591
Prepayments	67,819	1,278	8,207	-	77,304
Materials and supplies inventory	98,649	-	-	7,154	105,803
Restricted assets:					
Equity in pooled cash and cash equivalents	12,351	-	-	-	12,351
Total assets	\$ 11,323,269	\$ 4,946,194	\$ 17,592,272	\$ 2,768,701	\$ 36,630,436
Liabilities:					
Accounts payable	\$ 111,092	\$ -	\$ -	\$ 21,222	\$ 132,314
Contracts payable	-	59,236	1,426,789	-	1,486,025
Retainage payable	-	34,015	154,963	-	188,978
Accrued wages and benefits	1,555,859	-	-	176,881	1,732,740
Compensated absences payable	194,915	-	-	-	194,915
Retirement incentive payable	21,590	-	-	-	21,590
Interfund loans payable	-	-	-	17,591	17,591
Intergovernmental payable	87,565	-	-	9,545	97,110
Unearned revenue	3,852,028	-	-	882,370	4,734,398
Deferred revenue	552,428	-	3,697,783	73,086	4,323,297
Pension obligation payable	337,445	-	-	62,528	399,973
Total liabilities	6,712,922	93,251	5,279,535	1,243,223	13,328,931
Fund Balances:					
Nonspendable:					
Materials and supplies inventory	98,649	-	-	7,154	105,803
Prepays	67,819	1,278	8,207	-	77,304
Restricted:					
Debt service	-	-	-	568,340	568,340
Capital improvements	-	4,851,665	12,304,530	318,292	17,474,487
Classroom facilities maintenance	-	-	-	305,887	305,887
Non-public schools	-	-	-	38,300	38,300
Targeted academic assistance	-	-	-	6,381	6,381
Other purposes	-	-	-	244,561	244,561
Textbooks	-	-	-	64,011	64,011
School bus purchases	12,351	-	-	-	12,351
Committed:					
Other purposes	-	-	-	3,737	3,737
Assigned:					
Student instruction	22,206	-	-	-	22,206
Student and staff support	49,130	-	-	-	49,130
Extracurricular activities	590,943	-	-	-	590,943
School supplies	76,224	-	-	-	76,224
Subsequent year appropriations	1,114,602	-	-	-	1,114,602
Other purposes	511	-	-	-	511
Unassigned (deficit)	2,577,912	-	-	(31,185)	2,546,727
Total fund balances	4,610,347	4,852,943	12,312,737	1,525,478	23,301,505
Total liabilities and fund balances	\$ 11,323,269	\$ 4,946,194	\$ 17,592,272	\$ 2,768,701	\$ 36,630,436

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$ 23,301,505
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,634,284
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes receivable	\$ 325,218	
Income taxes receivable	166,562	
Intergovernmental receivable	3,831,517	
Total	4,323,297	4,323,297
Unamortized bond issuance costs are not recognized in the funds.		352,249
Unamortized premiums on bond issuances are not recognized in the funds.		(685,980)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(167,593)
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	(16,935,811)	
Energy conservation bonds	(105,000)	
Capital lease obligations	(61,007)	
Compensated absences	(1,374,196)	
Total	(18,476,014)	(18,476,014)
Net assets of governmental activities		\$ 19,281,748

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, 2012

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Property taxes	\$ 4,446,541	\$ -	\$ -	\$ 1,049,576	\$ 5,496,117
Income taxes	2,488,163	-	-	-	2,488,163
Transportation fees	31,846	-	-	-	31,846
Tuition	345,149	-	-	-	345,149
Earnings on investments	8,344	2,412	8,288	1,545	20,589
Charges for services	-	-	-	471,951	471,951
Extracurricular	94,384	-	-	137,880	232,264
Classroom materials and fees	70,786	-	-	-	70,786
Rental income	46,770	-	-	750	47,520
Contributions and donations	12,208	88,000	-	42,776	142,984
Other local revenues	74,735	17,180	-	22,184	114,099
Intergovernmental - state	9,196,689	-	6,202,859	366,744	15,766,292
Intergovernmental - federal	57,258	-	-	2,322,959	2,380,217
Total revenues	16,872,873	107,592	6,211,147	4,416,365	27,607,977
Expenditures:					
Current:					
Instruction:					
Regular	8,090,377	-	-	393,457	8,483,834
Special	2,019,558	-	-	293,191	2,312,749
Vocational	219,446	-	-	-	219,446
Support services:					
Pupil	888,745	-	-	153	888,898
Instructional staff	908,456	-	-	534,824	1,443,280
Board of education	55,949	-	-	-	55,949
Administration	1,409,833	-	-	-	1,409,833
Fiscal	666,629	-	-	25,607	692,236
Operations and maintenance	1,715,668	-	-	198,752	1,914,420
Pupil transportation	957,997	-	-	26,997	984,994
Central	336,647	-	-	6,994	343,641
Operation of non-instructional services:					
Other non-instructional services	10,969	-	-	138,377	149,346
Food service operations	-	-	-	1,034,791	1,034,791
Extracurricular activities	465,599	-	-	144,944	610,543
Facilities acquisition and construction	17,900	1,076,673	5,531,039	24,478	6,650,090
Debt service:					
Principal retirement	152,960	-	-	150,000	302,960
Interest and fiscal charges	17,694	-	-	1,021,230	1,038,924
Total expenditures	17,934,427	1,076,673	5,531,039	3,993,795	28,535,934
Net change in fund balances	(1,061,554)	(969,081)	680,108	422,570	(927,957)
Fund balances at beginning of year	5,671,901	5,822,024	11,632,629	1,102,908	24,229,462
Fund balances at end of year	\$ 4,610,347	\$ 4,852,943	\$ 12,312,737	\$ 1,525,478	\$ 23,301,505

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, 2012

Net change in fund balances - total governmental funds \$ (927,957)

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

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

Capital asset additions	\$ 6,960,029	
Current year depreciation	(243,850)	
Total	6,716,179	6,716,179

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

(5,574)

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

Property taxes	15,918	
Income taxes	166,562	
Intergovernmental	(6,299,532)	
Total	(6,117,052)	(6,117,052)

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

General Obligation Bonds	150,000	
Energy Conservation Bonds	105,000	
Capital leases	47,960	
Total	302,960	302,960

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	916	
Accreted interest on capital appreciation bonds	(61,346)	
Amortization of bond issuance costs	(10,567)	
Amortization of bond premiums	20,579	
Total	(50,418)	(50,418)

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.

68,334

Change in net assets of governmental activities \$ (13,528)

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 4,396,938	\$ 4,448,030	\$ 4,778,545	\$ 330,515
Income taxes.	2,376,386	2,404,000	2,445,028	41,028
Tuition.	349,549	353,611	345,149	(8,462)
Transportation fees.	24,713	25,000	32,263	7,263
Earnings on investments	7,068	7,150	6,327	(823)
Classroom materials and fees	9,885	10,000	11,560	1,560
Rental income	44,137	44,650	46,770	2,120
Contributions and donations	4,943	5,000	120	(4,880)
Contract services.	4,943	5,000	-	(5,000)
Other local revenues	19,770	20,000	35,608	15,608
Intergovernmental - state	9,080,880	9,186,400	9,196,689	10,289
Intergovernmental - federal	43,879	44,389	51,923	7,534
Total revenues	<u>16,363,091</u>	<u>16,553,230</u>	<u>16,949,982</u>	<u>396,752</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,053,379	8,031,835	7,903,197	128,638
Special.	2,076,394	2,070,839	2,048,891	21,948
Vocational.	230,632	230,015	225,054	4,961
Support services:				
Pupil.	775,835	773,760	763,263	10,497
Instructional staff	990,913	988,262	894,039	94,223
Board of education	77,111	76,905	59,545	17,360
Administration.	1,503,992	1,499,969	1,472,072	27,897
Fiscal	621,097	619,436	678,043	(58,607)
Operations and maintenance.	1,845,370	1,840,433	1,804,782	35,651
Pupil transportation	924,258	921,786	918,359	3,427
Central.	155,050	154,635	155,032	(397)
Extracurricular activities.	489,269	487,960	460,514	27,446
Facilities acquisition and construction	12,032	12,000	17,900	(5,900)
Debt service:				
Principal retirement	105,000	105,000	105,000	-
Interest and fiscal charges.	10,710	10,710	10,710	-
Total expenditures	<u>17,871,042</u>	<u>17,823,545</u>	<u>17,516,401</u>	<u>307,144</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(1,507,951)</u>	<u>(1,270,315)</u>	<u>(566,419)</u>	<u>703,896</u>
Other financing sources:				
Refund of prior year's expenditures	44,000	44,000	65,747	21,747
Sale of capital assets.	1,000	1,000	-	(1,000)
Total other financing sources	<u>45,000</u>	<u>45,000</u>	<u>65,747</u>	<u>20,747</u>
Net change in fund balance.	(1,462,951)	(1,225,315)	(500,672)	724,643
Fund balance at beginning of year	4,604,618	4,604,618	4,604,618	-
Prior year encumbrances appropriated	133,150	133,150	133,150	-
Fund balance at end of year	<u>\$ 3,274,817</u>	<u>\$ 3,512,453</u>	<u>\$ 4,237,096</u>	<u>\$ 724,643</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 591,608	\$ 124,822
Investments in segregated accounts.	379,875	-
Investments in common stock.	<u>26,218</u>	<u>-</u>
Total assets	<u>997,701</u>	<u>\$ 124,822</u>
Liabilities:		
Accounts payable.	-	\$ 233
Intergovernmental payable	-	10
Due to students.	<u>-</u>	<u>124,579</u>
Total liabilities	<u>-</u>	<u>\$ 124,822</u>
Net assets:		
Held in trust for scholarships	<u>997,701</u>	
Total net assets	<u>\$ 997,701</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 3,031
Gifts and contributions.	3,861
Total additions.	6,892
Deductions:	
Scholarships awarded	35,456
Change in net assets.	(28,564)
Net assets at beginning of year	1,026,265
Net assets at end of year.	\$ 997,701

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, 2012**

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 107 classified employees and 140 certified full-time teaching personnel who provide services to 2,073 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012

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

Wyandot-Crawford Health Benefit Plan

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2012, are recorded as deferred revenue.

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

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

E. Budgets

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

Tax Budget:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012

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 2012, investments were limited to non-negotiable certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$8,344, which includes \$1,169 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 assets available in trust for scholarships on the statement of fiduciary net assets.

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, 2012

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012, 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, 2012 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, 2012

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, 2012

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes includes monies restricted by State statute for school bus purchases.

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

O. Unamortized Bond Issuance Costs and Bond Premium

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

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

On the governmental fund financial statements, bond issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 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. 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, 2012

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 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 13,599
Student intervention	7
IDEA Part-B	10,425

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash in Segregated Accounts

The District has \$109,111 held in an account for retainage and \$10,106 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, \$379,875 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, 2012, the carrying amount of all District deposits was \$2,209,867. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$2,577,853 of the District's bank balance of \$3,247,231 was exposed to custodial risk as discussed below, while \$669,378 was covered by the FDIC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2012, 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	\$ 23,954,367	\$ 23,954,367
Common stock	<u>26,218</u>	<u>-</u>
Total	<u>\$ 23,980,585</u>	<u>\$ 23,954,367</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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 23,954,367	99.89
Common stock	<u>26,218</u>	<u>0.11</u>
Total	<u>\$ 23,980,585</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,209,867
Investments	23,980,585
Investments in segregated accounts	379,875
Cash in segregated accounts	<u>119,217</u>
Total	<u>\$ 26,689,544</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 25,567,021
Private-purpose trust fund	997,701
Agency funds	<u>124,822</u>
Total	<u>\$ 26,689,544</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund loans receivable/payable consisted of the following at June 30, 2012, 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 assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$596,002 in the general fund, \$34,391 in the debt service fund (a nonmajor governmental fund), \$88,735 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$13,399 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$927,736 in the general fund, \$138,124 in the debt service fund (a nonmajor governmental fund), \$20,857 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$53,532 in the permanent improvement fund (a nonmajor governmental fund). 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, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 207,616,090	96.99	\$ 197,993,100	96.72
Public utility personal	<u>6,433,860</u>	<u>3.01</u>	<u>6,720,050</u>	<u>3.28</u>
Total	<u>\$ 214,049,950</u>	<u>100.00</u>	<u>\$ 204,713,150</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$56.90		\$55.70	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:

Property taxes	\$ 5,792,143
Income taxes	1,000,154
Accounts	5,055
Intergovernmental	4,064,872
Accrued interest	<u>493</u>
Total	<u>\$ 10,862,717</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 \$3,761,300, which will be collected over the duration of the construction project.

NOTE 8 - INCOME TAX

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>07/01/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/12</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 797,675	\$ -	\$ -	\$ 797,675
Construction in progress	<u>727,652</u>	<u>6,734,249</u>	<u>-</u>	<u>7,461,901</u>
Total capital assets, not being depreciated	<u>1,525,327</u>	<u>6,734,249</u>	<u>-</u>	<u>8,259,576</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,653,222	23,400	-	1,676,622
Buildings and building improvements	7,018,696	182,279	-	7,200,975
Furniture, fixtures and equipment	1,603,149	13,101	-	1,616,250
Vehicles	1,270,904	7,000	(55,742)	1,222,162
Textbooks	<u>1,293,610</u>	<u>-</u>	<u>-</u>	<u>1,293,610</u>
Total capital assets, being depreciated	<u>12,839,581</u>	<u>225,780</u>	<u>(55,742)</u>	<u>13,009,619</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,484,424)	(42,522)	-	(1,526,946)
Buildings and building improvements	(5,694,503)	(69,622)	-	(5,764,125)
Furniture, fixtures and equipment	(1,174,836)	(76,325)	-	(1,251,161)
Vehicles	(928,592)	(53,882)	50,168	(932,306)
Textbooks	<u>(1,158,874)</u>	<u>(1,499)</u>	<u>-</u>	<u>(1,160,373)</u>
Total accumulated depreciation	<u>(10,441,229)</u>	<u>(243,850)</u>	<u>50,168</u>	<u>(10,634,911)</u>
Governmental activities capital assets, net	<u>\$ 3,923,679</u>	<u>\$ 6,716,179</u>	<u>\$ (5,574)</u>	<u>\$ 10,634,284</u>

Depreciation expense was charged to governmental functions as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITAL ASSETS (Continued)

<u>Instruction:</u>	
Regular	\$ 62,245
Special	5,700
Vocational	5,361
<u>Support services:</u>	
Instructional staff	2,909
Fiscal	777
Business	5,143
Operation and maintenance	34,036
Pupil transportation	54,467
Central	1,060
Extracurricular	69,551
Food service operations	<u>2,601</u>
Total depreciation expense	<u>\$ 243,850</u>

NOTE 10 - CAPITAL LEASE OBLIGATION

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

Capital assets consisting of equipment have been capitalized in the amount of \$222,829 in the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 was \$97,489, leaving a current book value of \$125,340. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2012 totaled \$47,960 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, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 54,943
2014	<u>9,158</u>
Total minimum lease payments	64,101
Less: amount representing interest	<u>(3,094)</u>
Total	<u>\$ 61,007</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2012 consist of the following:

Governmental activities:	Balance Outstanding <u>07/01/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Series 2010A School Improvement Bonds					
Current interest serial bonds	\$ 1,190,000	\$ -	\$ (150,000)	\$ 1,040,000	\$ 180,000
Capital appreciation bonds	309,992	-	-	309,992	-
Accreted interest	24,473	61,346	-	85,819	-
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>17,024,465</u>	<u>61,346</u>	<u>(150,000)</u>	<u>16,935,811</u>	<u>180,000</u>
Energy conservation bonds	210,000	-	(105,000)	105,000	105,000
Capital lease obligation	108,967	-	(47,960)	61,007	51,940
Compensated absences	<u>1,501,188</u>	<u>346,129</u>	<u>(256,616)</u>	<u>1,590,701</u>	<u>374,515</u>
Total long-term obligations	<u>\$ 18,844,620</u>	<u>\$ 407,475</u>	<u>\$ (559,576)</u>	<u>18,692,519</u>	<u>\$ 711,455</u>
				<u>685,980</u>	
				<u>\$ 19,378,499</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 \$719,721.

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 \$85,819 for series 2010 A has been included on the statement of net assets at June 30, 2012.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 A Bonds:

Fiscal Year	Current Interest - Series 2010 A			Capital Appreciation - Series 2010 A		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 180,000	\$ 20,200	\$ 200,200	\$ -	\$ -	\$ -
2014	190,000	16,500	206,500	-	-	-
2015	200,000	12,600	212,600	-	-	-
2016	230,000	8,300	238,300	-	-	-
2017	240,000	3,000	243,000	-	-	-
2018 - 2022	-	-	-	309,992	1,070,008	1,380,000
Total	<u>\$ 1,040,000</u>	<u>\$ 60,600</u>	<u>\$ 1,100,600</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. At June 30, 2012, the District had \$15,927,558 of unspent bond proceeds remaining on the Series 2010A and B bond issue.

The BABs mature on November 1, 2025, November 1, 2030, November 1, 2035, November 1, 2040 and November 1, 2045 in the amounts of \$1,390,000, \$2,355,000, \$3,130,000, \$3,855,000 and \$4,770,000, respectively. These BABs bear interest rates ranging from 5.05% to 6.90%. The District receives a direct payment subsidy from the United States Treasury equal to thirty-five percent of the corresponding interest payments due on the BABs. The District did not receive this subsidy during fiscal year 2012; however, a receivable has been recorded in the debt service fund for the federal subsidy due at year-end. The BABs are subject to optional redemption and extraordinary optional redemption prior to maturity, at the sole discretion of the District, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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:

<u>Fiscal Year</u>	Current Interest - Series 2010 B		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 997,730	\$ 997,730
2014	-	997,730	997,730
2015	-	997,730	997,730
2016	-	997,730	997,730
2017	-	997,730	997,730
2018 - 2022	-	4,988,650	4,988,650
2023 - 2027	1,790,000	4,772,683	6,562,683
2028 - 2032	2,530,000	4,149,423	6,679,423
2033 - 2037	3,265,000	3,229,890	6,494,890
2038 - 2042	4,020,000	2,040,997	6,060,997
2043 - 2046	3,895,000	552,517	4,447,517
Total	\$ 15,500,000	\$ 24,722,810	\$ 40,222,810

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

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

<u>Fiscal Year</u>	<u>Energy Conservation Bonds</u>		
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 105,000	\$ 5,355	\$ 110,355

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$2,037,532 and an unvoted debt margin of \$204,713.

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-fourth of the first 160 days of accrued but unused sick leave and one-third of any accrued but unused sick leave over 160 days to the maximum of 260 days. Certified employees are allowed one-fourth of accrued but unused sick leave, up to a severance pay maximum of sixty-six days.

B. Retirement Incentive

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education Meeting. In fiscal year 2012, three employees received this incentive. A liability of \$21,590 was recorded on the governmental fund financial statements. This amount is included as a component of compensated absences in the long-term obligations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 2012, 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	\$ 55,008,284
Electronic Data Processing Equipment	500	Full
Automobile Liability	1,000	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	2,000,000
Employer's Liability	-	2,000,000

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.

B. Workers' Compensation

For fiscal year 2012, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 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 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$333,655, \$313,128 and \$328,741, respectively; 65.66 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 14 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,063,090, \$1,086,276 and \$1,059,740, respectively; 82.27 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$58,259 made by the District and \$41,613 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, 2012, 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 premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 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, under "Employers/Audit Resources".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 2012, 0.55 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 2012, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$54,496, \$76,867 and \$49,650, respectively; 65.66 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$19,704, \$20,151 and \$19,550, respectively; 65.66 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, 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, 2012, 2011 and 2010 were \$81,776, \$83,560 and \$81,518, respectively; 82.27 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	\$ (500,672)
Net adjustment for revenue accruals	(283,151)
Net adjustment for expenditure accruals	(191,657)
Net adjustment for other sources/uses	(65,747)
Funds budgeted elsewhere	(169,061)
Adjustment for encumbrances	148,734
GAAP basis	<u>\$ (1,061,554)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special rotary fund, the insurance fund, uniform school supplies 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, 2012

NOTE 17 - CONTINGENCIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

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, 2011	\$ -
Current year set-aside requirement	359,173
Current year qualifying expenditures	(194,471)
Current year offsets	<u>(281,254)</u>
Total	<u>\$ (116,552)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u><u>\$ -</u></u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 18 - SET-ASIDES - (Continued)

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, 2012 follows:

Amount restricted for school bus purchases	<u>\$ 12,351</u>
--	------------------

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	\$ 76,124
Building	2,852,001
Classroom facilities	12,492,897
Other governmental	<u>263,302</u>
Total	<u>\$ 15,684,324</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 20 - CONTRACTUAL COMMITMENTS

As of June 30, 2012, the District was obligated for the following contracts:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Payments as of 6/30/2012</u>	<u>Contract Balance at 6/30/2012</u>
Adena Corporation	\$ 11,254,528	\$ 1,198,120	\$ 10,056,408
Barton Malow	1,434,905	326,439	1,108,466
Carter Electric, Inc.	2,246,545	78,293	2,168,252
Daily Globe	500	272	228
Dawson Insurance	43,540	16,382	27,158
Guenther Mechanical, Inc.	2,853,801	591,242	2,262,559
H.C. Nutting	56,750	18,369	38,381
Kidel	4,000	3,500	500
Mark Schaffer Excavating & Trucking, Inc.	2,539,590	1,929,205	610,385
MKC Associates, Inc.	1,596,055	1,240,427	355,628
Ohio CPA	2,000	500	1,500
Richland Blue Print	44,888	40,588	4,300
Richland County - Building Department	24,004	20,122	3,882
Richland County - Health Department	600	300	300
S.A. Comunale	261,900	-	261,900
Stan & Associates, Inc.	65,424	17,481	47,943
	<u>\$ 22,429,030</u>	<u>\$ 5,481,240</u>	<u>\$ 16,947,790</u>

SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
School Breakfast Program	2012	10.553	\$123,435		\$123,435	
National School Lunch Program	2012	10.555	395,028	\$59,611	395,028	\$59,611
Total U.S. Department of Agriculture/Child Nutrition Cluster			518,463	59,611	518,463	59,611
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Cluster:						
Title I Grants to Local Educational Agencies	2011	84.010	31,288		43,847	
	2012		284,793		269,876	
Total Title I Grants to Local Educational Agencies			316,081		313,723	
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	10,972		13,383	
Total Title I Cluster			327,053		327,106	
Special Education Cluster:						
Special Education - Grants to States	2011	84.027	68,152		75,739	
	2012		409,492		395,359	
Total Special Education - Grants to States			477,644		471,098	
ARRA - Special Education Grants to States	2011	84.391	10,684		67,986	
Total Special Education Cluster			488,328		539,084	
Education Technology State Grants						
	2011	84.318	895		1,077	
	2012		2,239		644	
Total Education Technology State Grants			3,134		1,721	
Improving Teacher Quality State Grants						
	2011	84.367	5,433		14,507	
	2012		91,787		79,156	
Total Improving Teacher Quality State Grants			97,220		93,663	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	2011	84.394			142,963	
Race to the Top						
	2011	84.395	7,300		1,147	
	2012		239,861		114,826	
Total Race to the Top			247,161		115,973	
Education Jobs Fund						
	2011	84.410	104,019		104,019	
	2012		11,933		11,870	
Total Education Jobs Fund			115,952		115,889	
Total U.S. Department of Education			1,278,848		1,336,399	
Totals			\$1,797,311	\$59,611	\$1,854,862	\$59,611

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 25, 2013.

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

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

Dave Yost
Auditor of State

January 25, 2013



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Shelby City School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Shelby City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

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

In our opinion, the Shelby City School District, Richland County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

We noted a matter involving federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 25, 2013.

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



Dave Yost
Auditor of State

January 25, 2013

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster, CFDA 10.553 and 10.555 Special Education Cluster, CFDA 84.027 and 84.391; ARRA - State Fiscal Stabilization Fund, CFDA 84.394.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Material Weakness – The District had various errors with contracts payable and the investment in common stock calculations resulting adjustments made to the financial statements.	No	Repeated similar comment in Management Letter.



Dave Yost • Auditor of State

SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 12, 2013**