



Dave Yost • Auditor of State



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

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RICHLAND COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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

February 19, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(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, 2015. 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 2015 are as follows:

- In total, net position of governmental activities increased \$382,449 which represents a 4.00% increase from the 2014's restated net position.
- General revenues accounted for \$18,745,188 in revenue or 80.36% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,579,935 or 19.64% of total revenues of \$23,325,123.
- The District had \$21,724,960 in expenses related to governmental activities; only \$4,579,935 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 \$18,745,188 were adequate to provide for these programs in addition to the special item cash disbursements of \$1,217,714 during fiscal year 2015.
- The District's major funds are the general fund and the classroom facilities fund. The general fund had \$19,227,637 in revenues and \$17,567,197 in expenditures. During fiscal year 2015, the general fund's fund balance increased \$1,660,440 from \$5,446,264 to \$7,106,704.
- The classroom facilities fund had \$27,176 in revenues, \$3,293 in expenditures and (\$1,217,714) in a special item. The special item was a direct effect of the District's close out of the Ohio Facilities Construction Commission project. This process resulted in a \$1,217,714 refund to the Ohio Facilities Construction Commission. During fiscal year 2015, the classroom facilities fund's fund balance decreased \$1,193,831 from \$2,467,880 to \$1,274,049.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all (non-fiduciary) assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net position and statement of activities can be found on pages 19-20 of this report.

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

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 14. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major funds include the general fund and the classroom facilities fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 21-25 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 position and changes in fiduciary net position on pages 26 and 27. 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, 2015  
(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 29-67 of this report.

*Required Supplementary Information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 69 through 76 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2015 and June 30, 2014. The net position at June 30, 2014 has been restated as described in Note 3.

	<b>Net Position</b>	
	Governmental Activities	Restated Governmental Activities
	<u>2015</u>	<u>2014</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 19,344,799	\$ 17,877,702
Capital assets, net	<u>23,344,941</u>	<u>23,970,907</u>
Total assets	<u>42,689,740</u>	<u>41,848,609</u>
<b><u>Deferred Outflows of Resources</u></b>		
Unamortized deferred charges on debt refunding	102,766	-
Pension	<u>1,625,129</u>	<u>1,320,179</u>
Total deferred outflows of resources	<u>1,727,895</u>	<u>1,320,179</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,312,736	2,230,194
Long-term liabilities:		
Due within one year	549,827	430,522
Due in more than one year:		
Net pension liability	22,186,816	26,358,418
Other amounts	<u>18,570,374</u>	<u>18,538,317</u>
Total liabilities	<u>44,619,753</u>	<u>47,557,451</u>
<b><u>Deferred Inflows of Resources</u></b>		
Property taxes levied for next year	4,962,848	5,164,660
Pensions	<u>4,005,908</u>	-
Total deferred inflows of resources	<u>8,968,756</u>	<u>5,164,660</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	6,468,484	6,668,262
Restricted	3,022,593	4,223,778
Unrestricted (deficit)	<u>(18,661,951)</u>	<u>(20,445,363)</u>
Total net position	<u>\$ (9,170,874)</u>	<u>\$ (9,553,323)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$15,484,916 to (\$9,553,323).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$9,170,874.

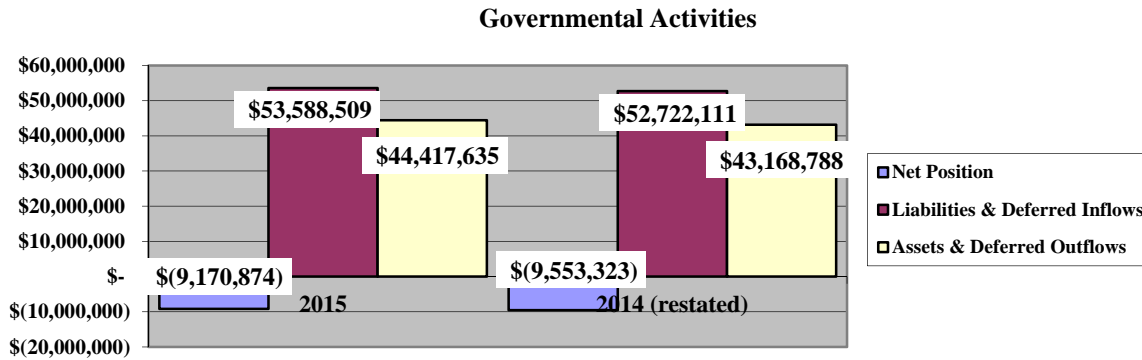
**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

At year end, capital assets represented 54.69% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. Net investment in capital assets at June 30, 2015, was \$6,468,484. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$3,022,593, represents resources that are subject to external restriction on how they may be used.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2015 and June 30, 2014. The amounts at June 30, 2014 have been restated as described in Note 3.



The table below shows the change in net position for fiscal years 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.

	<b>Change in Net Position</b>	
	<b>Governmental Activities</b>	
	2015	Restated 2014
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,232,811	\$ 1,165,155
Operating grants and contributions	3,332,189	3,274,053
Capital grants and contributions	14,935	92,675
General revenues:		
Property taxes	6,374,106	5,945,731
Income taxes	2,619,334	2,524,036
Grants and entitlements not restricted	9,699,226	9,117,755
Investment earnings	13,096	9,669
Miscellaneous	39,426	32,300
<b>Total revenues</b>	<b>23,325,123</b>	<b>22,161,374</b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

	<b>Change in Net Position</b>	
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>Restated 2014</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	8,461,413	8,995,868
Special	3,349,304	3,364,782
Vocational	116,659	151,173
Other	7,503	25,644
Support services:		
Pupil	967,715	820,353
Instructional staff	618,398	986,375
Board of Education	61,907	71,408
Administration	1,434,659	1,366,469
Fiscal	685,236	710,183
Operations and maintenance	1,774,469	2,246,975
Pupil transportation	1,038,782	932,227
Central	287,041	184,296
Operation of non-instructional services:		
Other non-instructional services	184,127	143,502
Food service operations	1,046,216	1,080,325
Extracurricular activities	668,485	659,478
Interest and fiscal charges	769,520	1,089,116
Bond issuance costs	253,526	-
<b>Total expenses</b>	<u>21,724,960</u>	<u>22,828,174</u>
Special items	<u>(1,217,714)</u>	<u>-</u>
<b>Changes in net position</b>	382,449	(666,800)
Net position at beginning of year (restated)	<u>(9,553,323)</u>	N/A
Net position at end of year	<u>\$ (9,170,874)</u>	<u>\$ (9,553,323)</u>

**Governmental Activities**

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,320,179 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$945,743.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

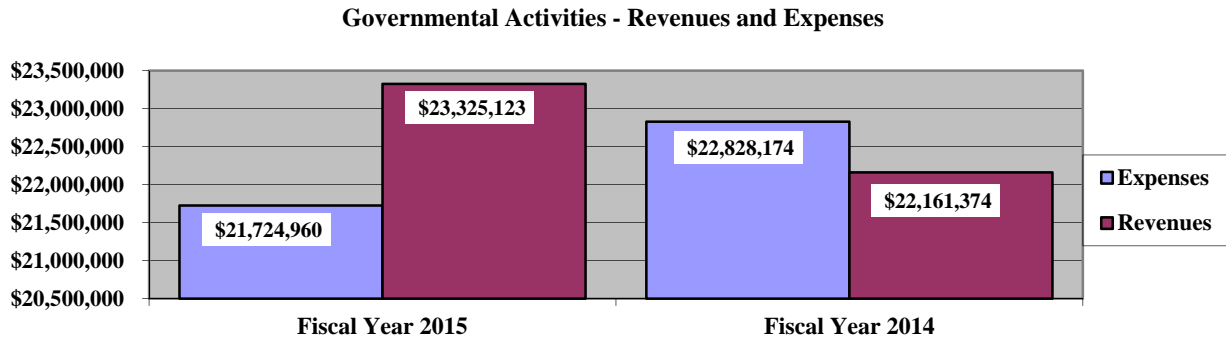
Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 21,724,960
Pension expense under GASB 68	(945,743)
2015 contractually required contributions	<u>1,416,387</u>
Adjusted 2015 program expenses	22,195,604
Total 2014 program expenses under GASB 27	<u>22,828,174</u>
Decrease in program expenses not related to pension	<u>\$ (632,570)</u>

Net position of the District's governmental activities increased \$382,449. Total governmental expenses of \$21,724,960 were offset by program revenues of \$4,579,935, general revenues of \$18,745,188 and a special item of (\$1,217,714). Program revenues supported 21.08% 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 80.14% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2015 and 2014.





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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(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>2015</u>	Net Cost of Services <u>2015</u>	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>
Program expenses:				
Instruction:				
Regular	\$ 8,461,413	\$ 7,679,860	\$ 8,995,868	\$ 7,984,962
Special	3,349,304	1,296,607	3,364,782	1,767,401
Vocational	116,659	77,770	151,173	105,995
Other	7,503	7,503	25,644	25,644
Support services:				
Pupil	967,715	853,217	820,353	721,657
Instructional staff	618,398	607,262	986,375	967,899
Board of education	61,907	61,907	71,408	71,408
Administration	1,434,659	1,410,954	1,366,469	1,356,551
Fiscal	685,236	684,845	710,183	707,569
Operations and maintenance	1,774,469	1,751,340	2,246,975	2,159,986
Pupil transportation	1,038,782	976,080	932,227	864,168
Central	287,041	287,041	184,296	184,296
Operation of non-instructional services:				
Other non-instructional services	184,127	8,464	143,502	(19,258)
Food service operations	1,046,216	39,323	1,080,325	97,743
Extracurricular activities	668,485	541,663	659,478	535,217
Interest and fiscal charges	769,520	769,520	-	-
Bond issuance costs	<u>253,526</u>	<u>91,669</u>	<u>1,089,116</u>	<u>765,053</u>
Total expenses	<u>\$ 21,724,960</u>	<u>\$ 17,145,025</u>	<u>\$ 22,828,174</u>	<u>\$ 18,296,291</u>

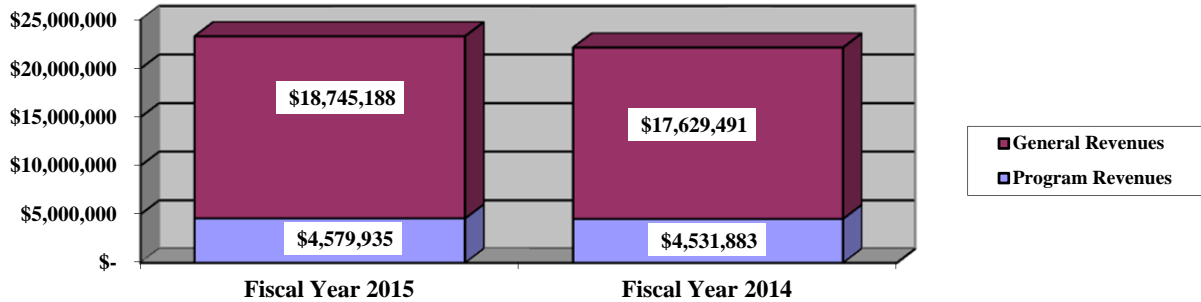
The dependence upon tax and other general revenues for governmental activities is apparent, as 75.93% of instruction activities in fiscal year 2015 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.92% of all expenses. The District's 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, 2015  
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2015 and 2014.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$10,572,142, which is higher than last year's total of \$9,942,833. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	<u>Fund Balance June 30, 2015</u>	<u>Fund Balance June 30, 2014</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 7,106,704	\$ 5,446,264	\$ 1,660,440	30.49 %
Classroom facilities	1,274,049	2,467,880	(1,193,831)	(48.37) %
Other governmental	<u>2,191,389</u>	<u>2,028,689</u>	<u>162,700</u>	8.02 %
Total	<u>\$ 10,572,142</u>	<u>\$ 9,942,833</u>	<u>\$ 629,309</u>	6.33 %

**General Fund**

The District's general fund balance increased \$1,660,440. Revenues of the general fund increased slightly during the fiscal year primarily due to an increase in state foundation.

The \$216,895 decrease in capital outlay is due to the capital lease that was signed during fiscal year 2014. During fiscal year 2015, no capital leases were signed. 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, 2015  
(UNAUDITED)

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

	<u>2015</u> <u>Amount</u>	<u>2014</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 7,761,070	\$ 7,354,594	5.53 %
Earnings on investments	11,268	8,660	30.12 %
Intergovernmental	10,645,048	9,833,099	8.26 %
Other revenues	<u>810,251</u>	<u>764,405</u>	6.00 %
 Total	 <u>\$ 19,227,637</u>	 <u>\$ 17,960,758</u>	 7.05 %
<b><u>Expenditures</u></b>			
Instruction	\$ 10,511,679	\$ 10,469,909	0.40 %
Support services	6,515,528	6,112,952	6.59 %
Extracurricular activities	481,615	446,254	7.92 %
Operation of non-instructional services	9,231	12,129	(23.89) %
Capital outlay	-	216,895	(100.00) %
Debt service	<u>49,144</u>	<u>58,302</u>	(15.71) %
 Total	 <u>\$ 17,567,197</u>	 <u>\$ 17,316,441</u>	 1.45 %

***Classroom Facilities Fund***

The classroom facilities fund had \$27,176 in revenues, \$3,293 in expenditures and (\$1,217,714) in a special item. The special item was a direct effect of the District's close out of the Ohio Facilities Construction Commission project. This process resulted in a \$1,217,714 refund to the Ohio Facilities Construction Commission. During fiscal year 2015, the classroom facilities fund's fund balance decreased \$1,193,831 from \$2,467,880 to \$1,274,049.

***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 2015, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$17,867,500. Final budgeted revenues and other financing sources were \$18,867,500. Actual revenues and other sources for fiscal year 2015 were \$18,959,703. This represents a \$92,203 increase over final budgeted revenues.

General fund original appropriations of \$18,406,312 were increased to \$18,417,762 in the final appropriations. The actual budget basis expenditures for fiscal year 2015 totaled \$17,579,113, which were \$838,649 less than final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2015, the District had \$23,344,941 invested in land, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal year 2015 balances compared to 2014.

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

	Governmental Activities	
	2015	2014
Land	\$ 793,364	\$ 793,364
Land improvements	1,150,874	1,118,797
Buildings and building improvements	20,002,155	20,565,488
Furniture, fixtures and equipment	1,179,938	1,262,119
Vehicles	218,610	231,139
Total	\$ 23,344,941	\$ 23,970,907

The overall decrease in capital assets of \$625,966 is due to depreciation expense of \$1,044,436 and disposals of \$5,552 (net of accumulated depreciation) exceeding capital outlays of \$424,022.

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

*Debt Administration*

At June 30, 2015, the District had \$136,643 in a capital lease obligation and \$16,441,004 in series 2010A and 2014 general obligation bonds outstanding. Of the District's total obligations of \$16,577,647, \$293,295 is due within one year and \$16,284,352 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, 2015  
(UNAUDITED)

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2015.

<b>Outstanding Long-Term Debt at June 30, 2015</b>		
	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>
Series 2010A general obligation bonds	\$ 1,126,004	\$ 1,224,330
Series 2010B general obligation bonds	-	15,500,000
Series 2014 general obligation bonds	15,315,000	-
Capital lease obligation	<u>136,643</u>	<u>177,831</u>
<b>Total</b>	<b><u>\$ 16,577,647</u></b>	<b><u>\$ 16,902,161</u></b>

At June 30, 2015, the District's overall legal debt margin was \$3,958,259 with an unvoted debt margin of \$213,636. 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 2014, negotiations on new contracts for certified and classified staff were completed. The certified staff received a three year contract with a 1.5% stipend in fiscal year 2015, a 1.5% increase to the base in fiscal year 2016 and a 1% increase to the base in fiscal year 2017. The classified contract is also a three year agreement with a 1% increase in fiscal year 2015, a 1.5% increase in fiscal year 2016 and a 1.5% stipend in fiscal year 2017.

In August 2010, the District passed a 4 mil, 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 provided a new high school, and allowed students from the two buildings located in the flood plain to be redistributed to existing buildings within the District. The total project cost is approximately \$28 million with approximately \$11 million provided by OSFC.

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

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

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

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

STATEMENT OF NET POSITION  
JUNE 30, 2015

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 11,411,078
Cash in segregated accounts . . . . .	12,280
Receivables:	
Property taxes . . . . .	6,505,398
Income taxes. . . . .	1,067,404
Accounts. . . . .	10,343
Accrued interest . . . . .	1,127
Intergovernmental . . . . .	177,060
Prepayments . . . . .	45,664
Materials and supplies inventory. . . . .	102,197
Inventory held for resale. . . . .	11,855
Due from an external party . . . . .	393
Capital assets:	
Land . . . . .	793,364
Depreciable capital assets, net. . . . .	22,551,577
Capital assets, net . . . . .	<u>23,344,941</u>
Total assets. . . . .	<u>42,689,740</u>
<b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding . . . . .	102,766
Pension - STRS . . . . .	1,253,884
Pension - SERS . . . . .	<u>371,245</u>
Total deferred outflows of resources . . . . .	<u>1,727,895</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	156,301
Contracts payable. . . . .	6,411
Accrued wages and benefits payable . . . . .	1,456,753
Intergovernmental payable . . . . .	1,307,321
Pension and post employment benefits payable. . . . .	280,361
Accrued interest payable . . . . .	104,654
Unearned revenue . . . . .	935
Long-term liabilities:	
Due within one year. . . . .	549,827
Due in more than one year:	
Net pension liability . . . . .	22,186,816
Other amounts due in more than one year . . . . .	18,570,374
Total liabilities . . . . .	<u>44,619,753</u>
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	4,962,848
Pension - STRS. . . . .	3,299,976
Pension - SERS. . . . .	<u>705,932</u>
Total deferred inflows of resources . . . . .	<u>8,968,756</u>
<b>Net position:</b>	
Net investment in capital assets . . . . .	6,468,484
Restricted for:	
Capital projects . . . . .	2,176,773
Classroom facilities maintenance . . . . .	313,139
Debt service. . . . .	416,357
Locally funded programs . . . . .	27,567
State funded programs. . . . .	19,423
Federally funded programs . . . . .	20,674
Student activities . . . . .	20,506
Other purposes . . . . .	28,154
Unrestricted (deficit) . . . . .	<u>(18,661,951)</u>
Net position (deficit) . . . . .	<u>\$ (9,170,874)</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, 2015

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 8,461,413	\$ 586,040	\$ 194,530	\$ 983	\$ (7,679,860)
Special . . . . .	3,349,304	-	2,052,569	128	(1,296,607)
Vocational . . . . .	116,659	7	38,882	-	(77,770)
Other . . . . .	7,503	-	-	-	(7,503)
Support services:					
Pupil. . . . .	967,715	45,194	69,304	-	(853,217)
Instructional staff . . . . .	618,398	6	7,200	3,930	(607,262)
Board of education . . . . .	61,907	-	-	-	(61,907)
Administration. . . . .	1,434,659	10,910	12,795	-	(1,410,954)
Fiscal. . . . .	685,236	-	-	391	(684,845)
Operations and maintenance . . . . .	1,774,469	14,707	-	8,422	(1,751,340)
Pupil transportation. . . . .	1,038,782	30,955	30,666	1,081	(976,080)
Central . . . . .	287,041	-	-	-	(287,041)
Operation of non-instructional services:					
Other non-instructional services . . . . .	184,127	3,787	171,876	-	(8,464)
Food service operations . . . . .	1,046,216	421,167	585,726	-	(39,323)
Extracurricular activities. . . . .	668,485	120,038	6,784	-	(541,663)
Interest and fiscal charges . . . . .	769,520	-	-	-	(769,520)
Bond issuance costs . . . . .	253,526	-	161,857	-	(91,669)
<b>Total governmental activities . . . . .</b>	<b>\$ 21,724,960</b>	<b>\$ 1,232,811</b>	<b>\$ 3,332,189</b>	<b>\$ 14,935</b>	<b>(17,145,025)</b>

**General revenues:**

Property taxes levied for:	
General purposes . . . . .	5,131,074
Special revenue. . . . .	113,145
Debt service. . . . .	853,914
Capital outlay. . . . .	275,973
Income taxes levied for:	
General purposes . . . . .	2,619,334
Grants and entitlements not restricted to specific programs . . . . .	9,699,226
Investment earnings . . . . .	13,096
Miscellaneous . . . . .	39,426
<b>Total general revenues . . . . .</b>	<b>18,745,188</b>
Special item - refund to the Ohio Facilities Construction Commission. . . . .	(1,217,714)
<b>Total general revenues and special items . . . . .</b>	<b>17,527,474</b>
Change in net position . . . . .	382,449
<b>Net position (deficit) at beginning of year (restated) . . . . .</b>	<b>(9,553,323)</b>
<b>Net position (deficit) at end of year . . . . .</b>	<b>\$ (9,170,874)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 6,842,749	\$ 2,491,763	\$ 2,064,215	\$ 11,398,727
Cash in segregated accounts . . . . .	12,280	-	-	12,280
Receivables:				
Property taxes . . . . .	5,256,122	-	1,249,276	6,505,398
Income taxes . . . . .	1,067,404	-	-	1,067,404
Accounts . . . . .	8,101	-	2,242	10,343
Accrued interest . . . . .	1,127	-	-	1,127
Interfund loans . . . . .	17,591	-	-	17,591
Intergovernmental . . . . .	-	-	177,060	177,060
Prepayments . . . . .	45,664	-	-	45,664
Materials and supplies inventory . . . . .	100,765	-	1,432	102,197
Inventory held for resale . . . . .	-	-	11,855	11,855
Due from an external party . . . . .	393	-	-	393
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	12,351	-	-	12,351
<b>Total assets . . . . .</b>	<b>\$ 13,364,547</b>	<b>\$ 2,491,763</b>	<b>\$ 3,506,080</b>	<b>\$ 19,362,390</b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 111,395	\$ -	\$ 44,906	\$ 156,301
Contracts payable . . . . .	-	-	6,411	6,411
Accrued wages and benefits payable . . . . .	1,286,670	-	170,083	1,456,753
Compensated absences payable . . . . .	104,867	-	2,381	107,248
Intergovernmental payable . . . . .	81,013	1,217,714	8,594	1,307,321
Pension and post employment benefits payable . . . . .	230,496	-	49,865	280,361
Interfund loans payable . . . . .	-	-	17,591	17,591
Unearned revenue . . . . .	-	-	935	935
<b>Total liabilities . . . . .</b>	<b>1,814,441</b>	<b>1,217,714</b>	<b>300,766</b>	<b>3,332,921</b>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . . . .	4,009,799	-	953,049	4,962,848
Delinquent property tax revenue not available . . . . .	256,122	-	60,876	316,998
Income tax revenue not available . . . . .	177,481	-	-	177,481
<b>Total deferred inflows of resources . . . . .</b>	<b>4,443,402</b>	<b>-</b>	<b>1,013,925</b>	<b>5,457,327</b>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory . . . . .	100,765	-	1,432	102,197
Prepays . . . . .	45,664	-	-	45,664
Restricted:				
Debt service . . . . .	-	-	826,043	826,043
Capital improvements . . . . .	-	1,274,049	888,381	2,162,430
Classroom facilities maintenance . . . . .	-	-	307,586	307,586
Food service operations . . . . .	-	-	23,096	23,096
Non-public schools . . . . .	-	-	12,839	12,839
Special education . . . . .	-	-	12,363	12,363
Targeted academic assistance . . . . .	-	-	48,360	48,360
Other purposes . . . . .	-	-	50,783	50,783
Extracurricular . . . . .	-	-	20,506	20,506
School bus purchases . . . . .	12,351	-	-	12,351
Assigned:				
Student instruction . . . . .	17,194	-	-	17,194
Student and staff support . . . . .	105,378	-	-	105,378
School supplies . . . . .	52,222	-	-	52,222
Employee benefits . . . . .	742,993	-	-	742,993
Other purposes . . . . .	511	-	-	511
Unassigned . . . . .	6,029,626	-	-	6,029,626
<b>Total fund balances . . . . .</b>	<b>7,106,704</b>	<b>1,274,049</b>	<b>2,191,389</b>	<b>10,572,142</b>
<b>Total liabilities, deferred inflows and fund balances . . . . .</b>	<b>\$ 13,364,547</b>	<b>\$ 2,491,763</b>	<b>\$ 3,506,080</b>	<b>\$ 19,362,390</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2015

<b>Total governmental fund balances</b>		\$	10,572,142
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			23,344,941
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	316,998	
Income taxes receivable		177,481	
Total		494,479	494,479
Unamortized premiums on bonds issued are not recognized in the funds.			(1,126,986)
Unamortized amounts on refundings are not recognized in the funds.			102,766
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		1,625,129	
Deferred inflows of resources - pension		(4,005,908)	
Net pension liability		(22,186,816)	
Total		(24,567,595)	(24,567,595)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(104,654)
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		(16,441,004)	
Capital lease obligations		(136,643)	
Compensated absences		(1,308,320)	
Total		(17,885,967)	(17,885,967)
<b>Net position of governmental activities</b>		\$	(9,170,874)

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, 2015

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 5,154,317	\$ -	\$ 1,246,050	\$ 6,400,367
Income taxes . . . . .	2,606,753	-	-	2,606,753
Tuition . . . . .	526,549	-	-	526,549
Transportation fees . . . . .	30,955	-	-	30,955
Earnings on investments . . . . .	11,268	1,262	629	13,159
Charges for services . . . . .	-	-	421,167	421,167
Extracurricular . . . . .	68,182	-	121,038	189,220
Classroom materials and fees . . . . .	50,207	-	-	50,207
Rental income . . . . .	14,707	-	-	14,707
Contributions and donations . . . . .	26,012	-	27,349	53,361
Contract services . . . . .	10,000	-	-	10,000
Other local revenues . . . . .	83,639	-	82,059	165,698
Intergovernmental - state . . . . .	10,564,513	25,914	394,882	10,985,309
Intergovernmental - federal . . . . .	80,535	-	1,865,425	1,945,960
Total revenues . . . . .	<u>19,227,637</u>	<u>27,176</u>	<u>4,158,599</u>	<u>23,413,412</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	8,043,181	-	227,456	8,270,637
Special . . . . .	2,348,328	-	935,791	3,284,119
Vocational . . . . .	112,954	-	530	113,484
Other . . . . .	7,216	-	-	7,216
Support services:				
Pupil . . . . .	945,625	-	-	945,625
Instructional staff . . . . .	450,928	-	85,696	536,624
Board of education . . . . .	61,660	-	-	61,660
Administration . . . . .	1,477,454	-	-	1,477,454
Fiscal . . . . .	653,681	-	30,339	684,020
Operations and maintenance . . . . .	1,732,617	-	283,306	2,015,923
Pupil transportation . . . . .	917,502	-	22,569	940,071
Central . . . . .	276,061	-	-	276,061
Operation of non-instructional services:				
Other non-instructional services . . . . .	9,231	-	174,896	184,127
Food service operations . . . . .	-	-	980,438	980,438
Extracurricular activities . . . . .	481,615	-	148,126	629,741
Facilities acquisition and construction . . . . .	-	3,293	126,432	129,725
Debt service:				
Principal retirement . . . . .	41,188	-	200,000	241,188
Interest and fiscal charges . . . . .	7,956	-	818,383	826,339
Bond issuance costs . . . . .	-	-	253,526	253,526
Total expenditures . . . . .	<u>17,567,197</u>	<u>3,293</u>	<u>4,287,488</u>	<u>21,857,978</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>1,660,440</u>	<u>23,883</u>	<u>(128,889)</u>	<u>1,555,434</u>
<b>Other financing sources (uses):</b>				
Premium on bonds . . . . .	-	-	581,614	581,614
Sale of bonds . . . . .	-	-	15,315,000	15,315,000
Payment to refunding bond escrow agent . . . . .	-	-	(15,605,025)	(15,605,025)
Total other financing sources (uses) . . . . .	<u>-</u>	<u>-</u>	<u>291,589</u>	<u>291,589</u>
Special item - refund to the Ohio Facilities Construction Commission . . . . .	<u>-</u>	<u>(1,217,714)</u>	<u>-</u>	<u>(1,217,714)</u>
Net change in fund balances . . . . .	1,660,440	(1,193,831)	162,700	629,309
<b>Fund balances at beginning of year . . . . .</b>	<u>5,446,264</u>	<u>2,467,880</u>	<u>2,028,689</u>	<u>9,942,833</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 7,106,704</u>	<u>\$ 1,274,049</u>	<u>\$ 2,191,389</u>	<u>\$ 10,572,142</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<b>Net change in fund balances - total governmental funds</b>	\$	629,309
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 424,022	
Current year depreciation	<u>(1,044,436)</u>	
Total		(620,414)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(5,552)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(26,261)	
Income taxes	12,581	
Intergovernmental	<u>(158,294)</u>	
Total		(171,974)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		241,188
Issuances of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(15,315,000)
Payment to refunding bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position.		
		15,605,025
Premiums on bonds are amortized over the life of the issuance in the statement of activities.		
		(581,614)
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	61,302	
Accreted interest on capital appreciation bonds	(101,674)	
Amortization of bond premiums	99,450	
Amortization of deferred charges	<u>(2,259)</u>	
Total		56,819
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,416,387
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(945,743)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>74,018</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>382,449</u></b>

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 5,100,000	\$ 5,100,000	\$ 4,930,805	\$ (169,195)
Income taxes . . . . .	2,555,000	2,555,000	2,555,618	618
Tuition . . . . .	400,000	400,000	526,549	126,549
Transportation fees . . . . .	30,000	30,000	25,358	(4,642)
Earnings on investments . . . . .	7,500	7,500	10,117	2,617
Classroom materials and fees . . . . .	18,000	18,000	18,415	415
Rental income . . . . .	5,000	5,000	14,321	9,321
Contributions and donations . . . . .	1,000	1,000	2,164	1,164
Contract services . . . . .	-	-	10,000	10,000
Other local revenues . . . . .	22,000	22,000	15,166	(6,834)
Intergovernmental - state . . . . .	9,553,000	10,553,000	10,579,875	26,875
Intergovernmental - federal . . . . .	75,000	75,000	81,070	6,070
<b>Total revenues . . . . .</b>	<b>17,766,500</b>	<b>18,766,500</b>	<b>18,769,458</b>	<b>2,958</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,989,190	7,994,158	8,148,183	(154,025)
Special . . . . .	2,515,251	2,516,816	2,397,983	118,833
Vocational . . . . .	141,102	141,190	115,955	25,235
Other . . . . .	24,984	25,000	7,216	17,784
Support services:				
Pupil . . . . .	803,229	803,729	824,516	(20,787)
Instructional staff . . . . .	653,744	654,151	455,668	198,483
Board of education . . . . .	89,714	89,770	66,505	23,265
Administration . . . . .	1,493,281	1,494,210	1,504,037	(9,827)
Fiscal . . . . .	688,043	688,471	638,826	49,645
Operations and maintenance . . . . .	2,355,493	2,356,958	1,738,349	618,609
Pupil transportation . . . . .	933,196	933,777	926,005	7,772
Central . . . . .	261,854	262,017	271,559	(9,542)
Extracurricular activities . . . . .	457,231	457,515	484,311	(26,796)
<b>Total expenditures . . . . .</b>	<b>18,406,312</b>	<b>18,417,762</b>	<b>17,579,113</b>	<b>838,649</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(639,812)	348,738	1,190,345	841,607
<b>Other financing sources:</b>				
Refund of prior year's expenditures . . . . .	100,000	100,000	176,886	76,886
Sale of capital assets . . . . .	1,000	1,000	13,359	12,359
<b>Total other financing sources . . . . .</b>	<b>101,000</b>	<b>101,000</b>	<b>190,245</b>	<b>89,245</b>
Net change in fund balance . . . . .	(538,812)	449,738	1,380,590	930,852
<b>Fund balance at beginning of year . . . . .</b>	<b>4,355,412</b>	<b>4,355,412</b>	<b>4,355,412</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>144,216</b>	<b>144,216</b>	<b>144,216</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 3,960,816</b>	<b>\$ 4,949,366</b>	<b>\$ 5,880,218</b>	<b>\$ 930,852</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2015

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents . . . . .	\$ 554,890	\$ 145,115
Investments in segregated accounts. . . . .	417,391	-
Investments in common stock. . . . .	17,349	-
Total assets. . . . .	989,630	\$ 145,115
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 5,785
Pension obligation payable. . . . .	-	542
Intergovernmental payable . . . . .	-	59
Due to an external party. . . . .	-	393
Due to students. . . . .	-	138,336
Total liabilities . . . . .	-	\$ 145,115
<b>Net position:</b>		
Held in trust for scholarships . . . . .	989,630	
Total net position. . . . .	\$ 989,630	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 2,951
Gifts and contributions . . . . .	19,719
Total additions . . . . .	22,670
 <b>Deductions:</b>	
Scholarships awarded . . . . .	42,799
 Change in net position . . . . .	(20,129)
<b>Net position at beginning of year . . . . .</b>	<b>1,009,759</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 989,630</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the District's three elementary schools, one middle school and one high school staffed by 110 classified employees and 135 certified full-time teaching personnel who provide services to 1,932 students and other community members.

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

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**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.

Meta Solutions

The District is a participant in Meta Solutions which is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC). Meta Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. Meta Solutions provides instructional, core, technology and purchasing services for its member districts. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs and certain paper products. The Board of Directors consists of the Superintendents from eight of the member districts. Financial information can be obtained from Scott Armstrong, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

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 Retrospective 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 Retrospective Rating Program (the "GRRP") is an insurance purchasing pool.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**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.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

*PROPRIETARY FUNDS*

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

*FIDUCIARY FUNDS*

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

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

**D. Basis of Accounting**

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is 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, 2015

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources have been reported for the following two items related the District's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the District's contributions to the pension systems subsequent to the measurement date. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The District also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**E. Budgets**

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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.

**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 2015, investments were limited to non-negotiable certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2015.

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund (a nonmajor governmental fund) and the classroom facilities fund individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$11,268, which includes \$2,694 assigned from other District funds.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

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

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

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

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**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 position. Amounts resulting from goods or services provided by agency funds to governmental funds are classified as “due to/from external party”.

**J. Compensated Absences**

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

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, 2015, 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, 2015 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.

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**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.

*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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**M. Prepayments**

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

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.

**N. Net Position**

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

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

**O. Unamortized Bond Premiums and Discounts/Accounting Gain or Loss**

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.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as a deferred inflow of resources.

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

**P. Estimates**

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

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**Q. Interfund Activity**

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

**R. Restricted Assets**

Restricted assets in the general fund represent monies restricted by State Statute for school bus purchases and instructional materials. A schedule of the restricted assets is presented in Note 18.

**S. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**T. 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 any extraordinary items during fiscal year 2015. The District reported a special item for a refund made to the Ohio Facilities Construction Commission (OFCC) in the amount of \$1,217,714, which was requested as part of the District's construction project closeout process.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles/Restatement of Net Position**

For fiscal year 2015, the District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District's pension plan disclosures, as presented in Note 14 to the financial statements, and added required supplementary information which is presented on pages 69 - 76.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 15,484,916
Deferred outflows - payments subsequent to measurement date	1,320,179
Net pension liability	(26,358,418)
Restated net position at July 1, 2014	\$ (9,553,323)

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**A. Cash in Segregated Accounts**

The District has \$12,280 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, \$417,391 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, 2015, the carrying amount of all District deposits was \$4,898,801. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2015, \$2,349,660 of the District’s bank balance of \$5,275,676 was exposed to custodial risk as discussed below, while \$2,926,016 was covered by the FDIC.

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

**D. Investments**

As of June 30, 2015, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		<u>6 months or less</u>
STAR Ohio	\$ 7,212,282	\$ 7,212,282
Common stock	17,349	17,349
Total	<u>\$ 7,229,631</u>	<u>\$ 7,229,631</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.



**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial 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, 2015:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 7,212,282	99.76
Common stock	17,349	0.24
Total	<u>\$ 7,229,631</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,898,801
Investments	7,229,631
Investments in segregated accounts	417,391
Cash in segregated accounts	<u>12,280</u>
Total	<u>\$ 12,558,103</u>
<u>Cash and investments per financial statements</u>	
Governmental activities	\$ 11,423,358
Private-purpose trust fund	989,630
Agency funds	<u>145,115</u>
Total	<u>\$ 12,558,103</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

**A. Interfund Loans Receivable / Payable**

Interfund loans receivable/payable consisted of the following at June 30, 2015, as reported on the fund financial statements:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

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

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

The District had the following amounts due to/from an external party at June 30, 2015:

Fund	Due from external party	Due to external party
General	\$ 393	\$ -
Agency	-	393
Total	\$ 393	\$ 393

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, 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 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available as an advance at June 30, 2015 was \$990,201 in the general fund, \$158,432 in the debt service fund (a nonmajor governmental fund), \$21,468 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$55,451 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2014 was \$766,689 in the general fund, \$106,442 in the debt service fund (a nonmajor governmental fund), \$16,768 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$52,141 in the permanent improvement fund (a nonmajor governmental fund). 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, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 194,453,110	96.15	\$ 205,762,380	96.31
Public utility personal	<u>7,776,090</u>	<u>3.85</u>	<u>7,873,260</u>	<u>3.69</u>
Total	<u>\$ 202,229,200</u>	<u>100.00</u>	<u>\$ 213,635,640</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$55.80		\$55.50	

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2015 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net position follows:

**Governmental activities:**

Property taxes	\$ 6,505,398
Income taxes	1,067,404
Accounts	10,343
Accrued interest	1,127
Intergovernmental	<u>177,060</u>
Total	<u>\$ 7,761,332</u>

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

**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, 2015

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>07/01/14</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/15</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 793,364	\$ -	\$ -	\$ 793,364
Total capital assets, not being depreciated	<u>793,364</u>	<u>-</u>	<u>-</u>	<u>793,364</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,506,002	131,770	-	2,637,772
Buildings and building improvements	26,923,850	10,000	-	26,933,850
Furniture, fixtures and equipment	3,854,982	159,614	-	4,014,596
Vehicles	1,244,669	122,638	(55,521)	1,311,786
Total capital assets, being depreciated	<u>34,529,503</u>	<u>424,022</u>	<u>(55,521)</u>	<u>34,898,004</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,387,205)	(99,693)	-	(1,486,898)
Buildings and building improvements	(6,358,362)	(573,333)	-	(6,931,695)
Furniture, fixtures and equipment	(2,592,863)	(241,795)	-	(2,834,658)
Vehicles	(1,013,530)	(129,615)	49,969	(1,093,176)
Total accumulated depreciation	<u>(11,351,960)</u>	<u>(1,044,436)</u>	<u>49,969</u>	<u>(12,346,427)</u>
Governmental activities capital assets, net	<u>\$ 23,970,907</u>	<u>\$ (620,414)</u>	<u>\$ (5,552)</u>	<u>\$ 23,344,941</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 454,314
Special	130,624
Vocational	7,196
Other	287

Support services:

Pupil	37,629
Instructional staff	126,576
Administration	286
Operation and maintenance	38,005
Pupil transportation	114,601
Central	10,980
Extracurricular	55,433
Food service operations	68,505
Total depreciation expense	<u>\$ 1,044,436</u>

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 10 - CAPITAL LEASE OBLIGATION**

During a prior fiscal year, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital leases as defined by GAAP, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

Capital assets consisting of equipment have been capitalized in the amount of \$439,724 in the statement of Net Position. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2015 totaled \$41,188 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, 2015:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2016	\$ 49,144
2017	49,144
2018	<u>49,144</u>
Total minimum lease payments	147,432
Less: amount representing interest	<u>(10,789)</u>
Total	<u>\$ 136,643</u>

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 11 - LONG-TERM OBLIGATIONS**

During fiscal year 2015, the following activity occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2014 have been restated as described in Note 3.

<b>Governmental activities:</b>	Balance Outstanding <u>07/01/14</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/15</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Series 2010A School Improvement Bonds					
Current interest serial bonds	\$ 670,000	\$ -	\$ (200,000)	\$ 470,000	\$ 230,000
Capital appreciation bonds	309,992	-	-	309,992	-
Accreted interest	244,338	101,674	-	346,012	-
Series 2010B Build America Bonds					
Current interest term bonds	15,500,000	-	(15,500,000)	-	-
Series 2014 Refunding Bonds					
Current interest term bonds	-	15,315,000	-	15,315,000	20,000
Total general obligation bonds	<u>16,724,330</u>	<u>15,416,674</u>	<u>(15,700,000)</u>	<u>16,441,004</u>	<u>250,000</u>
Capital lease obligation	177,831	-	(41,188)	136,643	43,295
Compensated absences	1,421,856	183,046	(189,334)	1,415,568	256,532
Net pension liability	<u>26,358,418</u>	<u>-</u>	<u>(4,171,602)</u>	<u>22,186,816</u>	<u>-</u>
Total long-term obligations	<u>\$ 44,682,435</u>	<u>\$ 15,599,720</u>	<u>\$ (20,102,124)</u>	40,180,031	<u>\$ 549,827</u>
				Add: Unamortized premium on bonds	<u>1,126,986</u>
				Total on statement of net position	<u>\$ 41,307,017</u>

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

The issue is comprised of both current interest serial bonds, par value \$1,190,000, and capital appreciation bonds par value \$309,992. The interest rates on the current interest serial bonds range from 2.00% - 2.50%. The capital appreciation bonds mature on November 1, 2017 (stated interest rate 17.567%), November 1, 2018 (stated interest rate 17.567%), November 1, 2019 (stated interest rate 17.567%), November 1, 2020 (stated interest rate 17.567%) and November 1, 2021 (stated interest rate 17.567%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,380,000. Total accreted interest of \$346,012 for series 2010 A has been included on the statement of net position at June 30, 2015.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

Fiscal Year	Current Interest - Series 2010 A			Capital Appreciation - Series 2010 A		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 230,000	\$ 8,300	\$ 238,300	\$ -	\$ -	\$ -
2017	240,000	3,000	243,000	-	-	-
2018	-	-	-	77,538	172,462	250,000
2019	-	-	-	70,764	199,236	270,000
2020	-	-	-	60,907	214,093	275,000
2021 - 2022	-	-	-	100,783	484,217	585,000
Total	<u>\$ 470,000</u>	<u>\$ 11,300</u>	<u>\$ 481,300</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.

During fiscal year 2015, the Series 2010B Build America Bonds were refunded.

Series 2014 Refunding Bonds - On October 22, 2014, the District issued General Obligation Refunding Bonds (Series 2014 refunding bonds). These bonds refunded the \$15,500,000 Series 2010B bonds. These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. On the fund financial statements, payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. On the government-wide financial statements, principal payments reduce the liability reported on the statement of net position.

This issue is comprised of current interest bonds, present value \$15,315,000 at June 30, 2015. The interest rates on the bonds range from 1.00% - 5.00%. Payments on the current interest bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2045.

The reacquisition price exceeded the net carrying amount of the old debt by \$105,025. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 31 years by \$1,173,348 and resulted in an economic gain of \$673,531.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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 2014 BABs:

<u>Fiscal Year</u>	Current Interest - Series 2014		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 20,000	\$ 627,688	\$ 647,688
2017	10,000	627,538	637,538
2018	10,000	627,413	637,413
2019	10,000	627,263	637,263
2020	10,000	627,113	637,113
2021 - 2025	1,040,000	3,075,144	4,115,144
2026 - 2030	2,190,000	2,721,125	4,911,125
2031 - 2035	2,945,000	2,226,613	5,171,613
2036 - 2040	3,620,000	1,525,950	5,145,950
2041 - 2045	4,460,000	660,200	5,120,200
2046	1,000,000	20,000	1,020,000
Total	\$ 15,315,000	\$ 13,366,047	\$ 28,681,047

*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.

*Net Pension Liability* - See Note 14 for detail on the District's net pension liability.

**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, 2015, are a voted debt margin of \$3,958,259 and an unvoted debt margin of \$213,636.

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 12 - COMPENSATED ABSENCES**

**A. Compensated Absences**

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

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

**B. Retirement Incentive**

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education Meeting. In fiscal year 2015, no employees received this incentive. At fiscal year-end, a retirement incentive liability did not exist.

**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 2015, 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	\$ 76,117,863
Electronic Data Processing Equipment	500	Full
Automobile Liability	1,000/1,000	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	2,000,000
Employer's Liability	-	3,000,000

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

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

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

**B. Worker's Compensation**

For fiscal year 2015, the District participated in the Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool (Note 2A). The GRRP is a voluntary performance-based program sponsored by OSBA. The program is designed to reward participants that are able to keep their claim costs below a predetermined amount. Employers continue to pay their individual premium; however, they have the opportunity to receive retrospective premium adjustments at the end of each of the three evaluation periods. The firm of Comp Management provides administrative, cost control and actuarial services to the GRRP.

**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 \$150,000 for each insured event.

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension obligation payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$334,226 for fiscal year 2015. Of this amount \$31,558 is reported as pension and post-employment benefits payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,082,161 for fiscal year 2015. Of this amount, \$176,493 is reported as pension and post-employment benefits payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$ 4,349,476	\$ 17,837,340	\$ 22,186,816
Proportion of the Net Pension Liability	0.08594200%	0.07333389%	
Pension Expense	\$ 253,822	\$ 691,921	\$ 945,743

**SHELBY CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 37,019	\$ 171,723	\$ 208,742
School District contributions subsequent to the measurement date	334,226	1,082,161	1,416,387
Total Deferred Outflows of Resources	\$ 371,245	\$ 1,253,884	\$ 1,625,129
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 705,932	\$ 3,299,976	\$ 4,005,908
Total Deferred Inflows of Resources	\$ 705,932	\$ 3,299,976	\$ 4,005,908

\$1,416,387 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	\$ (167,228)	\$ (782,063)	\$ (949,291)
2017	(167,228)	(782,063)	(949,291)
2018	(167,228)	(782,063)	(949,291)
2019	(167,229)	(782,064)	(949,293)
Total	\$ (668,913)	\$ (3,128,253)	\$ (3,797,166)

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 6,205,409	\$ 4,349,476	\$ 2,788,475

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 25,536,097	\$ 17,837,340	\$ 11,326,782

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the District's surcharge obligation was \$44,004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$64,611, \$48,411, and \$43,656, respectively. For fiscal year 2015, 91.56 percent has been contributed, with the balance being reported pension and post-employment benefits payable. The full amount has been contributed for fiscal years 2014 and 2013.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$75,204, and \$78,725 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**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 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); and,

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

(d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 1,380,590
Net adjustment for revenue accruals	277,120
Net adjustment for expenditure accruals	156,137
Net adjustment for other sources/uses	(190,245)
Funds budgeted elsewhere	(32,005)
Adjustment for encumbrances	68,843
GAAP basis	<u>\$ 1,660,440</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 and the public school support fund.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is not party to legal proceedings.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 17 - CONTINGENCIES - (Continued)**

**C. Foundation Funding**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

**NOTE 18 - SET-ASIDES**

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

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2014	\$ -
Current year set-aside requirement	333,876
Current year qualifying expenditures	(298,483)
Current year offsets	<u>(365,536)</u>
Total	<u>\$ (330,143)</u>
Balance carried forward to fiscal year 2016	<u>\$ -</u>
Set-aside balance June 30, 2015	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 18 - SET-ASIDES - (Continued)**

During fiscal year 2012, the District issued \$16,999,992 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$16,999,992 at June 30, 2015.

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, 2015 follows:

Amount restricted for school bus purchases	<u>\$ 12,351</u>
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**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	\$ 23,640
Classroom facilities	133
Other governmental	<u>167,445</u>
Total	<u>\$ 191,218</u>

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS (1)

	<b>2014</b>	<b>2013</b>
District's proportion of the net pension liability	0.08594200%	0.08594200%
District's proportionate share of the net pension liability	\$ 4,349,476	\$ 5,110,695
District's covered-employee payroll	\$ 2,497,316	\$ 2,624,725
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	194.71%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS (1)

	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.07333389%	0.07333389%
District's proportionate share of the net pension liability	\$ 17,837,340	\$ 21,247,723
District's covered-employee payroll	\$ 7,492,700	\$ 7,872,454
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	269.90%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 334,226	\$ 346,128	\$ 363,262	\$ 353,359
Contributions in relation to the contractually required contribution	<u>(334,226)</u>	<u>(346,128)</u>	<u>(363,262)</u>	<u>(353,359)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,535,857	\$ 2,497,316	\$ 2,624,725	\$ 2,627,204
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 333,279	\$ 348,291	\$ 246,464	\$ 241,538	\$ 266,740	\$ 261,013
<u>(333,279)</u>	<u>(348,291)</u>	<u>(246,464)</u>	<u>(241,538)</u>	<u>(266,740)</u>	<u>(261,013)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,651,384	\$ 2,572,312	\$ 2,504,715	\$ 2,459,654	\$ 2,497,566	\$ 2,467,042
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 1,082,161	\$ 974,051	\$ 1,023,419	\$ 1,063,090
Contributions in relation to the contractually required contribution	<u>(1,082,161)</u>	<u>(974,051)</u>	<u>(1,023,419)</u>	<u>(1,063,090)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,729,721	\$ 7,492,700	\$ 7,872,454	\$ 8,177,615
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,086,276	\$ 1,059,740	\$ 1,403,240	\$ 1,013,377	\$ 997,889	\$ 983,815
<u>(1,086,276)</u>	<u>(1,059,740)</u>	<u>(1,403,240)</u>	<u>(1,013,377)</u>	<u>(997,889)</u>	<u>(983,815)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,355,969	\$ 8,151,846	\$ 10,794,154	\$ 7,795,208	\$ 7,676,069	\$ 7,567,808
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 57,004	\$ 57,004
Cash Assistance:			
School Breakfast Program	10.553	118,898	118,898
National School Lunch Program	10.555	399,185	399,185
Total Child Nutrition Cluster		<u>575,087</u>	<u>575,087</u>
Total U.S. Department of Agriculture		<u><b>575,087</b></u>	<u><b>575,087</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	532,036	529,401
Special Education Grants to States	84.027	446,368	434,318
Improving Teacher Quality State Grants	84.367	81,903	83,291
ARRA - Race to the Top, Recovery Grant	84.395	88,902	50,031
Total U.S. Department of Education		<u><b>1,149,209</b></u>	<u><b>1,097,041</b></u>
<b>Total</b>		<u><b>\$ 1,724,296</b></u>	<u><b>\$ 1,672,128</b></u>

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

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 19, 2016, wherein we noted the District adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



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

February 19, 2016



# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

We have audited the Shelby City School District's, Richland County, Ohio (the District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

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

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

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

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

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

In our opinion, the Shelby City School District, Richland County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

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

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

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



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

February 19, 2016

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

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

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

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2014-001	Noncompliance/Material Weakness - Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section .200(b) – Not filing timely with Federal Audit Clearinghouse	Yes	
2014-002	Noncompliance/Material Weakness - 7 CFR Section 210.14(e) - Nutrition Cluster Verification	Yes	
2014-003	Noncompliance/Material Weakness - 2 CFR Section 215.22(a) - Race to the Top Cash Management	Yes	





# 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  
MARCH 31, 2016**