



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Shelby City School District  
Richland County  
25 High School Avenue  
PO Box 31  
Shelby, Ohio 44875

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which land and other capital assets, net of depreciation are recorded in the governmental activities, business-type activities, and Food Service Fund in the accompanying statements of net assets at June 30, 2006 (stated at \$4,802,695 for the governmental activities and \$68,416 for the business-type activities and the Food Service Fund), and the amount of depreciation expense recorded in the governmental activities and business-type activities for the year then ended (stated at \$580,510, for the governmental activities, and \$9,608 for the business-type activities and the Food Service Fund). Due to our inability to obtain assurance on the amounts recorded in capital assets, we are also unable to obtain assurance as to the amounts recorded as invested in capital assets, net of related debt for the governmental activities and business-type activities (stated at \$4,067,695 and \$68,416, respectively).

The Auditor of State served during the year ended June 30, 2006 as the District's financial supervisor under Ohio Rev. Code Section 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code Section 118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Rev. Code Section 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Rev. Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets net of depreciation, depreciation expense, and invested in capital assets net of related debt, for the governmental activities, business-type activities and the Food Service Fund, as described in paragraph three, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and the Food Service Fund for the District, as of June 30, 2006, and the changes in financial position, and where applicable cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than food service and the aggregate remaining fund information for the District, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As further described in Note 3 to the basic financial statements, the District restated its June 30, 2005 net assets/fund balances of the Governmental Activities, General Fund, Food Service Fund, and Internal Service Fund due to a fund reclassification and understatements and overstatements of certain liabilities. Also, as further described in Note 26, we noted the District is experiencing certain financial difficulties. This note also discusses management's plans to address these conditions.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the Federal Awards Receipts and Expenditures Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA  
Auditor of State

May 4, 2007

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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The discussion and analysis of Shelby City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School 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 School District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- ❑ Net assets increased \$433,297. Net assets of governmental activities increased \$394,003 and net assets of business-type activities increased \$39,294 from fiscal year 2005.
- ❑ For governmental activities general revenues accounted for \$15,995,719 in revenue or 90.39 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$1,700,904, or 9.61 percent of total revenues of \$17,696,623.
- ❑ The School District had \$17,302,620 in expenses related to governmental activities; only \$1,700,904 of these expenses were offset by program specific charges for services, sales, grants or contributions.
- ❑ Business-Type activities had operating revenues of \$638,561, grants of \$334,915 and interest of \$70 which exceeded operating expenses of \$934,252.

**Using this Annual Financial Report**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Shelby City School District, the general and food service funds are the most significant funds.

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities*, except fiduciary funds, using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those net assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. Changes to our net assets are a direct result of property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- Governmental Activities – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The School District's food service and uniform school supplies programs are reported as business-type activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major funds are the general fund and food service enterprise fund.

***Governmental Funds*** Most of the School 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 statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.



**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	(Restated) 2005	2006	(Restated) 2005	2006	(Restated) 2005
<b>Assets</b>						
Current and Other Assets	\$8,772,102	\$9,056,927	\$68,496	\$22,831	\$8,840,598	\$9,079,758
Capital Assets	4,802,695	5,239,817	68,416	78,024	4,871,111	5,317,841
Total Assets	<u>13,574,797</u>	<u>14,296,744</u>	<u>136,912</u>	<u>100,855</u>	<u>13,711,709</u>	<u>14,397,599</u>
<b>Liabilities</b>						
Long-Term Liabilities	3,190,673	5,466,945	51,295	22,808	3,241,968	5,489,753
Other Liabilities	10,396,443	9,236,121	67,004	98,728	10,463,447	9,334,849
Total Liabilities	<u>13,587,116</u>	<u>14,703,066</u>	<u>118,299</u>	<u>121,536</u>	<u>13,705,415</u>	<u>14,824,602</u>
<b>Net Assets</b>						
Invested in Capital						
Assets, Net of Related Debt	4,067,695	4,392,553	68,416	78,024	4,136,111	4,470,577
Restricted	541,795	233,703	0	0	541,795	233,703
Unrestricted (Deficit)	<u>(4,621,809)</u>	<u>(5,032,578)</u>	<u>(49,803)</u>	<u>(98,705)</u>	<u>(4,671,612)</u>	<u>(5,131,283)</u>
Total Net Assets (Deficit)	<u>(\$12,319)</u>	<u>(\$406,322)</u>	<u>\$18,613</u>	<u>(\$20,681)</u>	<u>\$6,294</u>	<u>(\$427,003)</u>

Net assets of the School District's governmental activities increased \$394,003 from the prior year. The majority of this change is due to reduction in liabilities which resulted from decreases in deferred revenue and long term debt due to the School District paying down debt obligations.

The net assets of the School District business-type activities increased \$39,294 from the prior year. The majority of this change was due to increases in intergovernmental receivables.

**Shelby City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2006.

**Table 2**  
**Changes in Net Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	(Restated) 2005	2006	(Restated) 2005	2006	(Restated) 2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$625,249	\$652,454	\$638,561	\$543,439	\$1,263,810	\$1,195,893
Operating Grants and Contributions	1,066,550	1,080,211	334,915	358,124	1,401,465	1,438,335
Capital Grants and Contributions	9,105	90,004	0	0	9,105	90,004
<b>Total Program Revenues</b>	<b>1,700,904</b>	<b>1,822,669</b>	<b>973,476</b>	<b>901,563</b>	<b>2,674,380</b>	<b>2,724,232</b>
General Revenues:						
Property Taxes	7,228,986	6,107,092	0	0	7,228,986	6,107,092
Income Taxes	534,888	0	0	0	534,888	0
Grants and Entitlements	7,903,041	7,820,208	0	0	7,903,041	7,820,208
Other	328,804	334,365	70	282	328,874	334,647
<b>Total General Revenues</b>	<b>15,995,719</b>	<b>14,261,665</b>	<b>70</b>	<b>282</b>	<b>15,995,789</b>	<b>14,261,947</b>
<b>Total Revenues</b>	<b>17,696,623</b>	<b>16,084,334</b>	<b>973,546</b>	<b>901,845</b>	<b>18,670,169</b>	<b>16,986,179</b>
<b>Expenses</b>						
Instruction	9,775,376	10,113,028	0	0	9,775,376	10,113,028
Support Services:						
Pupil and Instructional Staff	2,225,461	2,190,070	0	0	2,225,461	2,190,070
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central Operation and Maintenance of Plant	1,984,466	2,241,014	0	0	1,984,466	2,241,014
Pupil Transportation	1,848,688	1,448,626	0	0	1,848,688	1,448,626
Extracurricular Activities	855,622	747,543	0	0	855,622	747,543
Interest and Fiscal Charges	526,805	595,829	0	0	526,805	595,829
Enterprise Operations	86,202	86,005	0	0	86,202	86,005
	0	0	934,252	911,751	934,252	911,751
<b>Total Expenses</b>	<b>17,302,620</b>	<b>17,422,115</b>	<b>934,252</b>	<b>911,751</b>	<b>18,236,872</b>	<b>18,333,866</b>
<b>Increase (Decrease) in Net Assets</b>	<b>394,003</b>	<b>(1,337,781)</b>	<b>39,294</b>	<b>(9,906)</b>	<b>433,297</b>	<b>(1,347,687)</b>
<b>Net Assets (Deficit) Beginning of Year</b>	<b>(406,322)</b>	<b>931,459</b>	<b>(20,681)</b>	<b>(10,775)</b>	<b>(427,003)</b>	<b>920,684</b>
<b>Net Assets (Deficit) End of Year</b>	<b>(\$12,319)</b>	<b>(\$406,322)</b>	<b>\$18,613</b>	<b>(\$20,681)</b>	<b>\$6,294</b>	<b>(\$427,003)</b>

**Shelby City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

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Total revenues of governmental activities increased by 10.02 percent. This increase was due to:

- Property taxes revenues increased by \$1,121,894. Fiscal year 2005 property tax revenue was lower due to a large advance on fiscal year 2005 revenue that was received in fiscal year 2004. Therefore, fiscal year 2006 property tax revenues appeared to greatly increase over the prior year.
- Income tax revenues increased by \$534,888 due to collections of the School District's one percent income tax levy that was passed by voters in the prior year.

Total expenses of governmental activities decreased by .68 percent. This decrease was due to:

- Instructional costs decreased by 3.34 percent due to a decrease in staff and associated costs. These decreases were partially offset by slight increases in support services costs.

***Governmental Activities***

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the homes were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00 and the School District would collect the same dollar value the levy generated in the years past. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$7,228,986 in 2006. General revenues from grants and entitlements, such as the school foundation program, generated \$7,903,041. With the combination of property and income taxes and intergovernmental funding covering over 90.55 percent of all expenses the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 56.50 percent of governmental program expenses. Interest expense was less than one percent. Interest expense was attributable to the outstanding energy conservation bonds.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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, unrestricted State entitlements and other general revenues.

**Shelby City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

Table 3  
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$9,775,376	\$10,113,028	(\$9,137,443)	(\$9,093,429)
Support Services:				
Pupil and Instructional Staff	2,225,461	2,190,070	(1,573,195)	(1,754,216)
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central	1,984,466	2,241,014	(1,794,137)	(2,103,012)
Operation and Maintenance of Plant	1,848,688	1,448,626	(1,806,404)	(1,420,145)
Pupil Transportation	855,622	747,543	(823,751)	(742,827)
Extracurricular Activities	526,805	595,829	(380,584)	(399,812)
Interest and Fiscal Charges	86,202	86,005	(86,202)	(86,005)
Total Expenses	<u>\$17,302,620</u>	<u>\$17,422,115</u>	<u>(\$15,601,716)</u>	<u>(\$15,599,446)</u>

***Business-Type Activities***

Business-type activities include the food service operation and uniform school supplies. These programs had revenues of \$973,546 and expenses of \$934,252 for fiscal year 2006. To insure the net assets are not reduced in fiscal year 2007, the School District is taking steps to reduce expenses in the enterprise funds.

***The School District's Funds***

Information about the School District's governmental funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,564,501 and expenditures of \$16,995,042. The net change in fund balance for the year was an increase of \$569,459. The general fund had revenues of \$15,781,170 and expenditures of \$15,319,918. This increase of \$461,252 is due an increase in overall revenues.

***General Fund Budgeting Highlights***

The School 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 2006, the School District amended its general fund budget numerous times to allow for insignificant estimate changes.

For the general fund, the original budget basis revenue was \$15,960,677, above final budget estimates of \$14,082,501. Of this \$1,878,176 difference, most was due to tuition and fees and intergovernmental revenues. Actual revenues were \$14,082,501, equal to the final budget. The original appropriations of \$15,605,221 stayed fairly constant. Final appropriations were \$15,819,208. Expenditures, however, were only \$15,735,742 or \$83,466 less than anticipated. This \$83,466 difference is due to the fact that the School District did not spend what it anticipated in regular instruction.

**Shelby City School District**  
*Management's Discussion and Analysis*  
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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the School District had \$4,871,111 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles with \$4,802,695 used for governmental activities. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 4  
 Capital Assets at June 30  
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$348,364	\$348,364	\$0	\$0	\$348,364	\$348,364
Land Improvements	68,943	76,228	0	0	68,943	76,228
Buildings and Improvements	1,485,997	1,479,020	0	0	1,485,997	1,479,020
Furniture and Equipment	2,589,531	3,006,180	68,416	78,024	2,657,947	3,084,204
Vehicles	309,860	330,025	0	0	309,860	330,025
<b>Totals</b>	<b>\$4,802,695</b>	<b>\$5,239,817</b>	<b>\$68,416</b>	<b>\$78,024</b>	<b>\$4,871,111</b>	<b>\$5,317,841</b>

The decrease in capital assets is due to annual depreciation of assets. For more information on capital assets refer to Note 10 to the Basic Financial Statements.

**Debt Administration**

At June 30, 2006, the School District had \$3,597,281 in debt outstanding with \$1,980,094 due within one year.

Table 5 summarizes the debt outstanding:

Table 5  
 Outstanding Debt at June 30

	Governmental Activities 2006	Governmental Activities 2005
State Solvency Loan	\$1,626,500	\$3,253,000
State of Ohio Bankruptcy Loan	235,781	235,781
Energy Conservation Bonds	735,000	840,000
Capital Leases	0	7,264
Notes	1,000,000	0
<b>Total</b>	<b>\$3,597,281</b>	<b>\$4,336,045</b>

**Shelby City School District**  
*Management's Discussion and Analysis*  
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The energy conservation bonds were issued to replace heating systems and lighting systems at one high school. It is to be repaid in annual installments through June 2013 from the general fund.

The State of Ohio Bankruptcy loan is to cover the loss of property taxes due to the LTV-Copperweld bankruptcy and will be repaid to the extent of any tax revenues received as a result of the bankruptcy settlement. The State Solvency Loan was a result of the School District's fiscal emergency status and will be repaid in two years, with the repayment amount being deducted from the State foundation revenue.

At June 30, 2006, the School District's overall legal debt margin was \$20,746,432 with an unvoted debt margin of \$238,683. For more information, refer to Note 12 to the Basic Financial Statements.

### **Current Issues Affecting Financial Condition**

On April 7, 2005, an operating deficit was certified by the Auditor of State placing the School District in fiscal emergency. In response to this crisis the School District reduced teaching and support staff, and curtailed spending in every area. In May of 2005 the residents of the School District passed a 1 percent income tax to further support the School District's efforts to resolve the situation. While still under the supervision of the fiscal emergency committee, the School District ended fiscal 2006 with a cash basis general fund balance of \$528,288. The state advance related to the fiscal emergency will be fully paid by June 2007. According to the School District's 5 year forecast the School District will end fiscal year 2007 with a deficit general fund balance.

To address the financial situation of the School District, the following steps are being taken. Both certified and classified staff approved new three year contracts with salary increases set at 0, 1.95 and 2 percent for years 2007, 2008 and 2009 respectively. An emergency levy generating \$950,000 is on the ballot for renewal in May of 2007. Upon passage of the emergency levy the School District looks forward to leaving fiscal emergency status behind in the near future.

In conclusion, Shelby City Schools have faced serious financial challenges over the past several years. Conditions are improving, and the board and staff are optimistic about the School District's ability to overcome those challenges while continuing to provide an education of which the community, students and staff can be proud.

### **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 School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Elizabeth Anatra, Treasurer at Shelby City School District, 25 High School Avenue, Shelby, Ohio 44875 or e-mail at [anatra.elizabeth@ShelbyK12.org](mailto:anatra.elizabeth@ShelbyK12.org).

## Shelby City School District

### Statement of Net Assets

June 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,319,500	\$117,612	\$1,437,112
Cash and Cash Equivalents			
With Fiscal Agent	6,482	0	6,482
Accounts Receivable	2,125	2,139	4,264
Intergovernmental Receivable	93,299	42,051	135,350
Prepaid Items	17,878	0	17,878
Taxes Receivable	7,169,779	0	7,169,779
Internal Balances	99,684	(99,684)	0
Inventory Held for Resale	0	5,239	5,239
Materials and Supplies Inventory	63,355	1,139	64,494
Nondepreciable Capital Assets	348,364	0	348,364
Depreciable Capital Assets, Net	4,454,331	68,416	4,522,747
<i>Total Assets</i>	<u>13,574,797</u>	<u>136,912</u>	<u>13,711,709</u>
<b>Liabilities</b>			
Accounts Payable	163,498	2,132	165,630
Accrued Wages Payable	1,435,522	24,995	1,460,517
Intergovernmental Payable	505,738	35,704	541,442
Matured Compensated Absences Payable	124,704	4,173	128,877
Deferred Revenue	6,016,832	0	6,016,832
Accrued Interest Payable	10,270	0	10,270
State Solvency Loan Payable	1,626,500	0	1,626,500
Claims Payable	513,379	0	513,379
Long-Term Liabilities:			
Due Within One Year	487,983	0	487,983
Due In More Than One Year	2,702,690	51,295	2,753,985
<i>Total Liabilities</i>	<u>13,587,116</u>	<u>118,299</u>	<u>13,705,415</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	4,067,695	68,416	4,136,111
Restricted for:			
Capital Projects	38,194	0	38,194
Set Asides	244,752	0	244,752
Other Purposes	258,849	0	258,849
Unrestricted (Deficit)	(4,621,809)	(49,803)	(4,671,612)
<i>Total Net Assets (Deficit)</i>	<u>(\$12,319)</u>	<u>\$18,613</u>	<u>\$6,294</u>

**Shelby City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
Instructional:				
Regular	\$7,958,429	\$214,100	\$122,733	\$0
Special	1,633,452	35,849	260,410	0
Vocational	183,495	4,841	0	0
Support Services:				
Pupil	694,931	93,913	45,204	0
Instructional Staff	1,530,530	21,223	491,926	0
Board of Education	47,758	1,262	0	0
Administration	1,271,884	33,387	479	0
Fiscal	506,224	13,179	0	0
Operation and Maintenance of Plant	1,848,688	42,254	30	0
Pupil Transportation	855,622	22,534	232	9,105
Central	56,100	1,149	9,670	0
Operation of Non-Instructional Services	102,500	11,742	119,461	0
Extracurricular Activities	526,805	129,816	16,405	0
Interest and Fiscal Charges	86,202	0	0	0
<i>Total Governmental Activities</i>	<u>17,302,620</u>	<u>625,249</u>	<u>1,066,550</u>	<u>9,105</u>
<b>Business-Type Activities</b>				
Food Service	909,270	578,268	334,915	0
Uniform School Supplies	24,982	60,293	0	0
<i>Total Business-Type Activities</i>	<u>934,252</u>	<u>638,561</u>	<u>334,915</u>	<u>0</u>
<b>Totals</b>	<u><u>\$18,236,872</u></u>	<u><u>\$1,263,810</u></u>	<u><u>\$1,401,465</u></u>	<u><u>\$9,105</u></u>

**General Revenues**

Property Taxes for:  
General Purposes  
Debt Service  
Capital Outlay  
Income Taxes  
Grants and Entitlements not Restricted  
to Specific Programs  
Investment Earnings  
Miscellaneous

*Total General Revenues*

Change in Net Assets

*Net Assets (Deficit) Beginning of Year - Restated (See Note 3)*

*Net Assets (Deficit) End of Year*

See accompanying notes to the basic financial statements



Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$7,621,596)	\$0	(\$7,621,596)
(1,337,193)	0	(1,337,193)
(178,654)	0	(178,654)
(555,814)	0	(555,814)
(1,017,381)	0	(1,017,381)
(46,496)	0	(46,496)
(1,238,018)	0	(1,238,018)
(493,045)	0	(493,045)
(1,806,404)	0	(1,806,404)
(823,751)	0	(823,751)
(45,281)	0	(45,281)
28,703	0	28,703
(380,584)	0	(380,584)
(86,202)	0	(86,202)
<u>(15,601,716)</u>	<u>0</u>	<u>(15,601,716)</u>
0	3,913	3,913
<u>0</u>	<u>35,311</u>	<u>35,311</u>
0	39,224	39,224
<u>(15,601,716)</u>	<u>39,224</u>	<u>(15,562,492)</u>
6,914,297	0	6,914,297
147,840	0	147,840
166,849	0	166,849
534,888	0	534,888
7,903,041	0	7,903,041
72,762	70	72,832
256,042	0	256,042
<u>15,995,719</u>	<u>70</u>	<u>15,995,789</u>
394,003	39,294	433,297
<u>(406,322)</u>	<u>(20,681)</u>	<u>(427,003)</u>
<u>(\$12,319)</u>	<u>\$18,613</u>	<u>\$6,294</u>

**Shelby City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$550,041	\$399,707	\$949,748
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	244,752	0	244,752
Accounts Receivable	600	1,525	2,125
Interfund Receivable	316,916	0	316,916
Intergovernmental Receivable	2,069	91,230	93,299
Prepaid Items	17,878	0	17,878
Materials and Supplies Inventory	63,355	0	63,355
Taxes Receivable	6,734,624	435,155	7,169,779
<i>Total Assets</i>	<u>\$7,930,235</u>	<u>\$927,617</u>	<u>\$8,857,852</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$84,819	\$78,679	\$163,498
Accrued Wages Payable	1,344,043	91,479	1,435,522
Interfund Payable	0	67,455	67,455
Intergovernmental Payable	454,049	51,689	505,738
Matured Compensated Absences Payable	124,704	0	124,704
Deferred Revenue	6,077,233	499,710	6,576,943
Accrued Interest Payable	3,625	0	3,625
State Solvency Loan Payable	1,626,500	0	1,626,500
Notes Payable	1,000,000	0	1,000,000
<i>Total Liabilities</i>	<u>10,714,973</u>	<u>789,012</u>	<u>11,503,985</u>
<b>Fund Balances (Deficit)</b>			
Reserved for Encumbrances	193,392	65,780	259,172
Reserved for Property Taxes	280,185	12,136	292,321
Reserved for Textbooks	244,752	0	244,752
Unreserved, Undesignated Reported In:			
General Fund	(3,503,067)	0	(3,503,067)
Special Revenue Funds	0	87,436	87,436
Capital Projects Funds	0	(26,747)	(26,747)
<i>Total Fund Balances (Deficit)</i>	<u>(2,784,738)</u>	<u>138,605</u>	<u>(2,646,133)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,930,235</u>	<u>\$927,617</u>	<u>\$8,857,852</u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2006*

<b>Total Governmental Funds Balances</b>		(\$2,646,133)
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,802,695
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	483,420	
Intergovernmental	76,691	
Total	560,111	560,111
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Net Assets	(546,990)	
Internal Balances	15,316	
Total	(531,674)	(531,674)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(6,645)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Energy Conservation Bonds	(735,000)	
State of Ohio Bankruptcy Loan	(235,781)	
Compensated Absences	(1,219,892)	
Total	(2,190,673)	(2,190,673)
 <i>Net Assets of Governmental Activities</i>		 (\$12,319)

**Shelby City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$6,672,276	\$402,778	\$7,075,054
Income Taxes	500,105	34,783	534,888
Intergovernmental	7,898,158	1,040,846	8,939,004
Interest	69,856	2,872	72,728
Tuition and Fees	405,329	0	405,329
Extracurricular Activities	0	219,270	219,270
Rentals	650	0	650
Contributions and Donations	0	61,536	61,536
Miscellaneous	234,796	21,246	256,042
<i>Total Revenues</i>	<u>15,781,170</u>	<u>1,783,331</u>	<u>17,564,501</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,673,479	116,149	7,789,628
Special	1,419,593	244,561	1,664,154
Vocational	181,704	0	181,704
Support Services:			
Pupil	653,396	73,355	726,751
Instructional Staff	818,946	537,683	1,356,629
Board of Education	47,647	0	47,647
Administration	1,213,695	6,995	1,220,690
Fiscal	495,511	5,541	501,052
Operation and Maintenance of Plant	1,538,014	114,347	1,652,361
Pupil Transportation	791,688	952	792,640
Central	43,409	12,691	56,100
Operation of Non-Instructional Services	1,059	103,544	104,603
Extracurricular Activities	430,888	101,569	532,457
Capital Outlay	0	173,284	173,284
Debt Service:			
Principal Retirement	7,264	105,000	112,264
Interest and Fiscal Charges	3,625	79,453	83,078
<i>Total Expenditures</i>	<u>15,319,918</u>	<u>1,675,124</u>	<u>16,995,042</u>
<i>Net Change in Fund Balances</i>	461,252	108,207	569,459
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>(3,245,990)</u>	<u>30,398</u>	<u>(3,215,592)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$2,784,738)</u></u>	<u><u>\$138,605</u></u>	<u><u>(\$2,646,133)</u></u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2006*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$569,459</b>
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period.		
Capital Assets Additions	143,388	
Current Year Depreciation	<u>(580,510)</u>	
Total		(437,122)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	153,932	
Intergovernmental	<u>(21,844)</u>	
Total		132,088
Repayment of state solvency loans, energy conservation bonds and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Energy Conservation Bonds	105,000	
Capital Leases	<u>7,264</u>	
Total		112,264
Some expenses reported in the statement of activities, such as compensated absences of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(88,993)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.		
		(3,124)
The internal service fund used by management to charge the cost of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for the governmental funds is reported for the year.		
Change in Net Assets	112,283	
Internal Balances	<u>(2,852)</u>	
Total		<u>109,431</u>
<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$394,003</u></u>

**Shelby City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$6,194,064	\$6,970,964	\$6,970,964	\$0
Income Taxes	122,400	122,899	122,899	0
Intergovernmental	6,587,113	6,269,589	6,269,589	0
Interest	12,000	69,856	69,856	0
Tuition and Fees	2,819,100	405,329	405,329	0
Rentals	0	650	650	0
Miscellaneous	226,000	243,214	243,214	0
<i>Total Revenues</i>	15,960,677	14,082,501	14,082,501	0
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,478,849	7,796,486	7,713,020	83,466
Special	1,365,497	1,602,156	1,602,156	0
Vocational	359,223	211,740	211,740	0
Support Services:				
Pupil	849,266	683,282	683,282	0
Instructional Staff	849,748	840,272	840,272	0
Board of Education	19,613	61,175	61,175	0
Administration	1,167,896	1,259,328	1,259,328	0
Fiscal	587,313	491,809	491,809	0
Operation and Maintenance of Plant	1,639,588	1,595,634	1,595,634	0
Pupil Transportation	785,484	794,187	794,187	0
Central	72,120	43,649	43,649	0
Operation of Non-Instructional Services	1,093	1,059	1,059	0
Extracurricular Activities	429,531	438,431	438,431	0
<i>Total Expenditures</i>	15,605,221	15,819,208	15,735,742	83,466
<i>Excess of Revenues Over (Under) Expenditures</i>	355,456	(1,736,707)	(1,653,241)	83,466
<b>Other Financing Sources (Uses)</b>				
General Obligation Notes Issued	1,000,000	1,000,000	1,000,000	0
Sale of Capital Assets	1,400	0	0	0
Advances In	340,320	340,320	340,320	0
Advances Out	0	(274,560)	(274,560)	0
<i>Total Other Financing Sources (Uses)</i>	1,341,720	1,065,760	1,065,760	0
<i>Net Change in Fund Balance</i>	1,697,176	(670,947)	(587,481)	83,466
<i>Fund Balance Beginning of Year</i>	530,818	530,818	530,818	0
Prior Year Encumbrances Appropriated	584,951	584,951	584,951	0
<i>Fund Balance End of Year</i>	\$2,812,945	\$444,822	\$528,288	\$83,466

See accompanying notes to the basic financial statements

**Shelby City School District**

*Statement of Fund Net Assets*

*Proprietary Funds*

*June 30, 2006*

	Business-Type Activities - Enterprise Funds			
	Food Service	All Other Enterprise Funds	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$80,911	\$36,701	\$117,612	\$125,000
Cash and Cash Equivalents				
With Fiscal Agent	0	0	0	6,482
Accounts Receivable	2,139	0	2,139	0
Intergovernmental Receivable	42,051	0	42,051	0
Inventory Held for Resale	5,239	0	5,239	0
Materials and Supplies Inventory	1,139	0	1,139	0
<i>Total Current Assets</i>	<u>131,479</u>	<u>36,701</u>	<u>168,180</u>	<u>131,482</u>
<i>Noncurrent Assets</i>				
Depreciable Capital Assets, Net	68,416	0	68,416	0
<i>Total Assets</i>	<u>199,895</u>	<u>36,701</u>	<u>236,596</u>	<u>131,482</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	2,132	0	2,132	0
Accrued Wages Payable	24,995	0	24,995	0
Interfund Payable	84,368	0	84,368	165,093
Intergovernmental Payable	35,704	0	35,704	0
Matured Compensated Absences Payable	4,173	0	4,173	0
Claims Payable	0	0	0	513,379
<i>Total Current Liabilities</i>	<u>151,372</u>	<u>0</u>	<u>151,372</u>	<u>678,472</u>
<i>Long-Term Liabilities (net of current portion)</i>				
Compensated Absences Payable	51,295	0	51,295	0
<i>Total Liabilities</i>	<u>202,667</u>	<u>0</u>	<u>202,667</u>	<u>678,472</u>
<b>Net Assets</b>				
Invested in Capital Assets	68,416	0	68,416	0
Unrestricted (Deficit)	(71,188)	36,701	(34,487)	(546,990)
<i>Total Net Assets (Deficit)</i>	<u>(\$2,772)</u>	<u>\$36,701</u>	<u>33,929</u>	<u>(\$546,990)</u>

Some amounts reported for business-type activities in the statement of net assets are different because their share of internal service fund net assets are included.

	<u>(15,316)</u>
<i>Net Assets of Business-Type Activities</i>	<u>\$18,613</u>

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Revenues, Expenses and  
 Changes in Fund Net Assets  
 Proprietary Funds  
 For the Fiscal Year Ended June 30, 2006*

	Business-Type Activities - Enterprise Funds			
	Food Service	All Other Enterprise Funds	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
<b>Operating Revenues</b>				
Sales	\$578,268	\$60,293	\$638,561	\$0
Charges for Services	0	0	0	2,764,684
<i>Total Operating Revenues</i>	<u>578,268</u>	<u>60,293</u>	<u>638,561</u>	<u>2,764,684</u>
<b>Operating Expenses</b>				
Salaries	325,066	0	325,066	0
Fringe Benefits	208,330	0	208,330	0
Purchased Services	11,797	0	11,797	0
Materials and Supplies	0	24,982	24,982	0
Cost of Sales	357,321	0	357,321	0
Depreciation	9,608	0	9,608	0
Claims	0	0	0	2,652,435
<i>Total Operating Expenses</i>	<u>912,122</u>	<u>24,982</u>	<u>937,104</u>	<u>2,652,435</u>
<i>Operating Income (Loss)</i>	<u>(333,854)</u>	<u>35,311</u>	<u>(298,543)</u>	<u>112,249</u>
<b>Non-Operating Revenues</b>				
Operating Grants	334,915	0	334,915	0
Investment Earnings	70	0	70	34
<i>Total Non-Operating Revenues</i>	<u>334,985</u>	<u>0</u>	<u>334,985</u>	<u>34</u>
<i>Change in Net Assets</i>	1,131	35,311	36,442	112,283
<i>Net Assets (Deficit) Beginning of Year Restated (See Note 3)</i>	<u>(3,903)</u>	<u>1,390</u>		<u>(659,273)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$2,772)</u></u>	<u><u>\$36,701</u></u>		<u><u>(\$546,990)</u></u>

Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal service fund is reported with business-type activities.

	<u>2,852</u>
<i>Change in Net Assets of Business-Type Activities</i>	<u><u>\$39,294</u></u>

See accompanying notes to the basic financial statements



**Shelby City School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	Food Service	All Other Enterprise Funds	Total Enterprise Funds	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$578,268	\$60,293	\$638,561	\$0
Cash Received from Interfund Services Provided	0	0	0	2,764,684
Cash Payments to Employees for Services	(301,540)	0	(301,540)	0
Cash Payments for Employee Benefits	(233,777)	0	(233,777)	0
Cash Payments for Goods and Services	(345,798)	(27,956)	(373,754)	0
Cash Payments for Claims	0	0	0	(2,617,636)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(302,847)</u>	<u>32,337</u>	<u>(270,510)</u>	<u>147,048</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	268,445	0	268,445	0
Advances In	84,368	0	84,368	165,094
Advances Out	0	0	0	(280,693)
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>352,813</u>	<u>0</u>	<u>352,813</u>	<u>(115,599)</u>
<b>Cash Flows from Investing Activities</b>				
Interest on Investments	70	0	70	34
<i>Net Increase in Cash and Cash Equivalents</i>	50,036	32,337	82,373	31,483
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>30,875</u>	<u>4,364</u>	<u>35,239</u>	<u>99,999</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$80,911</u></u>	<u><u>\$36,701</u></u>	<u><u>\$117,612</u></u>	<u><u>\$131,482</u></u>

(continued)

**Shelby City School District**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>All Other Enterprise Funds</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating Income (Loss)	(\$333,854)	\$35,311	(\$298,543)	\$112,249
Adjustments:				
Depreciation	9,608	0	9,608	0
Donated Commodities Received During the Year	66,470	0	66,470	0
(Increase) Decrease in Assets:				
Accounts Receivable	(2,139)	0	(2,139)	0
Intergovernmental Receivable	(42,051)	0	(42,051)	0
Inventory Held for Resale	521	0	521	0
Materials and Supplies Inventory	(1,139)	0	(1,139)	0
Increase (Decrease) in Liabilities:				
Accounts Payable	1,658	(2,974)	(1,316)	0
Accrued Wages	(12,178)	0	(12,178)	0
Compensated Absences Payable	32,660	0	32,660	0
Intergovernmental Payable	(22,403)	0	(22,403)	0
Claims Payable	0	0	0	34,799
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(\$302,847)</u>	<u>\$32,337</u>	<u>(\$270,510)</u>	<u>\$147,048</u>

**Non-Cash Noncapital Activities**

Federal donated commodities in the amount of \$66,470 were recorded as revenue when received in the food service enterprise fund.

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2006*

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$578,623	\$78,324
Investments in Common Stock	29,488	0
Investments in Segregated Accounts	234,126	0
<i>Total Assets</i>	<u>842,237</u>	<u>\$78,324</u>
<b>Liabilities</b>		
Undistributed Monies	0	\$851
Due to Students	0	77,473
<i>Total Liabilities</i>	<u>0</u>	<u>\$78,324</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$842,237</u>	

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Scholarship
<b>Additions</b>	
Interest	\$29,390
Contributions and Donations	4,121
<i>Total Additions</i>	33,511
<b>Deductions</b>	
Scholarships Awarded	21,500
Administrative Fees	3,726
<i>Total Deductions</i>	25,226
<i>Change in Net Assets</i>	8,285
<i>Net Assets Beginning of Year</i>	833,952
<i>Net Assets End of Year</i>	\$842,237

See accompanying notes to the basic financial statements

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 1 - Description of the School District and Reporting Entity**

Shelby City School District (the School 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 School 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 School District's four elementary schools, one middle school and one high school staffed by 66 classified employees and 145 certificated full-time teaching personnel who provide services to 2,251 students and other community members.

On April 7, 2005, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under section 3316.03B(5), Ohio Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of Shelby. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan. The recovery plan was adopted on August 23, 2005. State law requires that the plan be updated annually. The recovery plan includes staff reductions of three administrators, 50 classified and 32 certified positions and the closure of one elementary school building with an estimated savings of \$3,200,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal year 2007 and beyond. See note 26 for more information on the School District's fiscal emergency status.

*Reporting Entity*

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Shelby City School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District is associated with four organizations, which are defined as a joint venture, a jointly governed organization, a group purchasing pool and an insurance purchasing pool. These organizations include the Pioneer Career and Technology Center, the Heartland Council of Governments, Metropolitan Educational Council, and the Ohio School Boards Association Worker's Compensation Group Rating Program. These organizations are presented in Notes 13, 14, 15 and 16 to the basic financial statements.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds. The more significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

***B. Fund Accounting***

The School 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.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

**General Fund** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for bond retirement and grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Type** Proprietary funds reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

**Food Service Fund** This fund accounts for the financial transactions related to the food service operations of the School District.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self insurance fund that accounts for medical/surgical and dental benefits of School District employees.

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

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is accounted for on a flow of economic resources measurement focus.

***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 and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-Exchange 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 School District, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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, interest, tuition, grants, fees and rentals.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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



**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The School District has a segregated bank account for self-insurance monies held separate from the School District's central bank account. This depository account is presented on the statements as "cash and cash equivalents with fiscal agent" since it is not required to be deposited into the School District treasury.

During fiscal year 2006, investments were limited to STAROhio and donated common stock. The common stock is reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$69,856, which includes \$21,464 assigned from other School District funds.

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

***F. Prepaid Items***

Payment made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

***G. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of donated and purchased food held for resale and materials and supplies held for consumption.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**H. Restricted Assets**

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund include amounts required by statute to be set-aside by the School District for the purchase of textbooks and other instructional materials. See Note 22 for additional information regarding set-asides.

**I. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School 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.

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

Description	Governmental Activities Estimated Lives	Business - Type Activities Estimated Lives
Land Improvements	15 years	N/A
Buildings and Improvements	40 years	40 years
Furniture and Equipment	10 years	10 years
Vehicles	10 years	N/A

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 11 years of current service with the School District.

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "matured compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***L. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

***M. Fund Balance Reserves***

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, property taxes and textbooks.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$541,795 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for special education and student activities.

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

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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***O. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for food service and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

***P. 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.

***Q. Estimates***

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

***R. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been given authority to allocate Board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the original and final appropriations were passed by the Board of Education.

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

**Note 3 – Changes in Accounting Principle and Restatement of Fund Balances/Net Assets**

***A. Changes in Accounting Principle***

For fiscal year 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries" and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 42 and GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

***B. Restatement of Fund Balance***

It was determined that funds previously reported as internal service funds should be reclassified and reported as part of the general fund. The state solvency loan payable was previously classified as a long-term liability but should be a fund liability. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	General	Other Governmental Funds	Total
Fund Balances (Deficit), June 30, 2005	(\$2,878)	\$30,398	\$27,520
Fund Reclassification	9,888	0	9,888
Reclassification of State Solvency Loan Payable	(3,253,000)	0	(3,253,000)
Restated Fund Balances, June 30, 2005	(\$3,245,990)	\$30,398	(\$3,215,592)

***C. Restatement of Net Assets***

The School District's net assets were understated at June 30, 2005, due to the Bankruptcy note and the retirement incentive being overstated.

	Governmental Activities
Net Assets June 30, 2005	(\$1,935,732)
Bankruptcy Note	971,345
Retirement Incentive	558,065
Restated Net Assets June 30, 2005	(\$406,322)

The School District's food service fund was understated at June 30 2005, due to the overstatement of an interfund payable.

	Food Service	Uniform School Supplies	Total Enterprise Funds	Internal Service
Net Assets June 30, 2005	(\$22,071)	\$1,390	(\$20,681)	(\$649,385)
Interfund Payables	18,168	0	18,168	0
Fund Reclassification	0	0	0	(9,888)
Restated Net Assets June 30, 2005	(\$3,903)	\$1,390	(2,513)	(\$659,273)
Internal Balance			(18,168)	
Restated Net Assets, Business-Type Activities, June 30, 2006			(\$20,681)	

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**Note 4 – Compliance and Fund Deficits**

**A. Compliance**

The following funds had original appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code.

	Estimated Resources Plus Carryover Balances	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Auxillary Services	\$36,808	\$99,021	\$62,213
Management Information Systems	5,303	6,643	1,340
Title I	260,505	263,881	3,376
<i>Internal Services Fund</i>			
Self Insurance	0	2,383,000	2,383,000

The following funds had final appropriations in excess of estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	Estimated Resources Plus Carryover Balances	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Poverty Aid	\$31,649	\$34,500	\$2,851
Title I	237,216	267,897	30,681
Title V	9,060	18,376	9,316
Drug Free Schools	9,130	19,381	10,251
Improving Teacher Quality	114,840	149,787	34,947
Miscellaneous Federal Grants	6,261	9,575	3,314
<i>Capital Projects Fund:</i>			
SchoolNet Equipment	19,434	20,475	1,041

The following funds had expenditures plus encumbrances in excess of appropriations contrary to section 5705.41, Ohio Revised Code:

	Final Appropriations	Expenditures	Excess
<i>Enterprise Fund:</i>			
Food Service	\$849,772	\$962,026	\$112,254
<i>Internal Service Fund:</i>			
Self Insurance	2,483,000	3,023,329	540,329

Although these violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to ensure no future violations.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**B. Fund Deficits**

The following funds had deficit fund balances at June 30, 2006:

Fund	Amount
General	\$2,784,738
<i>Special Revenue Funds:</i>	
Ohio Reads	568
Improving Teacher Quality	2,800
Poverty Aid	5,632
Title V	11,234
Miscellaneous Federal Grant	31,550
Title I	33,237
Idea Part B	47,523

The deficit fund balance in the general fund is due to the issuance of notes and adjustments for accrued liabilities. The special revenue fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provided transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Proceeds from tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

**Shelby City School District**  
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Net Change in Fund Balance

GAAP Basis	\$461,252
Net Adjustment for Revenue Accruals	(1,698,669)
Proceeds of Notes	1,000,000
Advances In	340,320
Net Adjustment for Expenditure Accruals	(149,319)
Advances Out	(274,560)
Encumbrances	(266,505)
Budget Basis	<u><u>(\$587,481)</u></u>

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies held by the School District can 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 payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;



**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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.

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$259,813 of the School District's bank balance of \$359,813 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments** As of June 30, 2006, the School District had the following investments in an internal investment pool:

	Fair Value	Average Maturity
STAROhio	\$1,803,835	33 Days
Common Stock	29,488	N/A
Total Portfolio	\$1,833,323	

**Interest Rate Risk** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The School District has over 98 percent of their investments with STAROhio

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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**Note 7 – Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Richland County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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 revenue.

The amount available as an advance at June 30, 2006 was \$280,185 in the general fund and \$12,136 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$618,448 in the general fund, and \$27,451 in the permanent improvement capital projects fund.

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

**Shelby City School District**  
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The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$183,237,760	81.10%	\$199,382,020	82.68%
Public Utility Personal	8,145,650	3.61	7,502,810	3.11
General Business Personal	34,554,599	15.29	34,252,251	14.21
	\$225,938,009	100.00%	\$241,137,081	100.00%
Tax Rate per \$1,000 of assessed valuation		\$49.60		\$49.50

**Note 8 – Income Tax**

The School 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

**Note 9 - Receivables**

Receivables at June 30, 2006, consisted of taxes, intergovernmental and accounts. 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. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivable follows:

<b>Governmental Activities</b>	
Improving Teacher Quality Grant	\$40,973
Title I	34,196
Drug Free Grant	8,467
Miscellaneous Federal Grants	5,962
General Fund	2,069
Title V	1,632
Total Governmental Activities	\$93,299

At June 30, 2006 the School District also had an intergovernmental receivable of \$42,051 in the business-type activities and food service enterprise fund for the federal lunch program reimbursements.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
<b>Governmental Activities</b>				
<i>Non-Depreciable Assets</i>				
Land	\$348,364	\$0	\$0	\$348,364
<i>Depreciable Assets</i>				
Land Improvements	523,163	0	0	523,163
Building and Improvements	6,970,837	50,840	0	7,021,677
Furniture and Equipment	5,974,570	60,794	0	6,035,364
Vehicles	1,379,904	31,754	0	1,411,658
<i>Total Depreciable Assets</i>	<u>14,848,474</u>	<u>143,388</u>	<u>0</u>	<u>14,991,862</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(446,935)	(7,285)	0	(454,220)
Building and Improvements	(5,491,817)	(43,863)	0	(5,535,680)
Furniture and Equipment	(2,968,390)	(477,443)	0	(3,445,833)
Vehicles	(1,049,879)	(51,919)	0	(1,101,798)
<i>Total Accumulated Depreciation</i>	<u>(9,957,021)</u>	<u>(580,510)*</u>	<u>0</u>	<u>(10,537,531)</u>
<i>Depreciable Capital Assets, Net</i>	<u>4,891,453</u>	<u>(437,122)</u>	<u>0</u>	<u>4,454,331</u>
Governmental Activities Capital Assets, Net	<u>\$5,239,817</u>	<u>(\$437,122)</u>	<u>\$0</u>	<u>\$4,802,695</u>
<b>Business-Type Activities</b>				
Furniture and Equipment	\$235,535	\$0	\$0	\$235,535
Less Accumulated Depreciation	<u>(157,511)</u>	<u>(9,608)</u>	<u>0</u>	<u>(167,119)</u>
Business-Type Activities Capital Assets, Net	<u>\$78,024</u>	<u>(\$9,608)</u>	<u>\$0</u>	<u>\$68,416</u>

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$135,718
Special	531
Vocational	1,819
Support Services:	
Pupil	613
Instructional Staff	206,481
Board of Education	111
Administration	9,819
Fiscal	4,818
Operation and Maintenance of Plant	150,848
Pupil Transportation	46,595
Non-Instructional Services	3,312
Extracurricular Activities	19,845
Total Depreciation Expense	<u><u>\$580,510</u></u>

**Note 11 – Short-Term Obligations**

***A. State Solvency Loan Payable***

A summary of the note transactions for the fiscal year ended June 30, 2006, follows:

	Principal Outstanding 6/30/2005	Additions	Deductions	Principal Outstanding 6/30/2006
General Fund				
2005 0.00% State Solvency Loan	\$3,253,000	\$0	\$1,626,500	\$1,626,500

As a result of the School District being declared in fiscal emergency during fiscal year 2005, the District received a no interest loan from the Ohio Department of Education for the amount of the projected deficit for fiscal year 2005. The loan will be repaid through monthly deductions from the State foundation revenue and will be repaid during fiscal year 2007.

***B. Note Payable***

A summary of the note transactions for the fiscal year ended June 30, 2006, follows:

	Principal Outstanding 6/30/2005	Additions	Deductions	Principal Outstanding 6/30/2006
General Fund				
2006 4.35% Tax Anticipation Notes	\$0	\$1,000,000	\$0	\$1,000,000

The five year tax anticipation notes were issued July 28, 2005 and were used to pay operating expenditures of the School District until the tax levy collections begin. The tax anticipation notes will be paid from the general fund with income tax revenue.

**Shelby City School District**  
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Principal and interest payments to retire the tax anticipation notes are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$170,000	\$39,803	\$209,803
2008	195,000	31,864	226,864
2009	205,000	23,164	228,164
2010	210,000	14,138	224,138
2011	220,000	4,785	224,785
Total	<u>\$1,000,000</u>	<u>\$113,754</u>	<u>\$1,113,754</u>

**Note 12 – Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/2005	Additions	Reductions	Principal Outstanding 6/30/2006	Amounts Due in One Year
<b>Governmental Activities</b>					
Energy Conservation Bonds	\$840,000	\$0	\$105,000	\$735,000	\$105,000
Tax Anticipation Notes	0	1,000,000	0	1,000,000	170,000
State of Ohio Bankruptcy Loan	235,781	0	0	235,781	78,594
Capital Leases	7,264	0	7,264	0	0
Compensated Absences	1,130,899	217,870	128,877	1,219,892	134,389
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,213,944</u>	<u>\$1,217,870</u>	<u>\$241,141</u>	<u>\$3,190,673</u>	<u>\$487,983</u>
<b>Business-Type Activities</b>					
Compensated Absences	<u>\$22,808</u>	<u>\$28,487</u>	<u>\$0</u>	<u>\$51,295</u>	<u>\$0</u>

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

*State of Ohio Bankruptcy Loan* – The State of Ohio Bankruptcy loan is due to a local business filing for Chapter Eleven receivership. The loan was received in fiscal year 2002. Payments for this loan are scheduled to begin in fiscal year 2007.

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases are paid from the general fund.

The overall debt margin of the School District as of June 30, 2006 was \$20,746,432 with an unvoted debt margin of \$238,683. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006 are as follows:

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Fiscal Year Ending June 30	Energy Conservation		Bankruptcy Loan
	Principal	Interest	Principal
2007	\$105,000	\$37,485	\$78,594
2008	105,000	32,130	78,594
2009	105,000	26,775	78,593
2010	105,000	21,420	0
2011	105,000	16,065	0
2012-2016	210,000	16,065	0
Total	<u>\$735,000</u>	<u>\$149,940</u>	<u>\$235,781</u>

**Note 13 – Joint Venture**

**Heartland Council of Governments (COG)** – is a governmental joint venture consisting of 16 local school districts, 1 educational service center, 1 career and technology center and a consortium of community schools. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member School Districts. Each member School District supports the COG based upon their per pupil charge dependent upon the software package utilized. In the event of dissolution of the COG, all current members will share in the net obligations or asset liquidation in a ratio proportionate to the last twelve months' financial contributions. The COG is governed by a Board of Directors, consisting of superintendents of the member districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The School District does not have an equity interest in the COG as a residual interest in the net resources of the joint venture upon dissolution is not equivalent to an equity interest. In fiscal year 2006 payments to the COG of \$75,440 were made by the School District. Financial information can be obtained from the Treasurer at Pioneer Career and Technology Center, who serves as the fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875.

**Note 14 - Jointly Governed Organization**

**Pioneer Career and Technology Center** – is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. The purpose of the Center is to provide vocational education to students from the participating districts. To obtain financial information, write to the Pioneer Career and Technology Center, a Vocational District, Jerry A. Payne, who serves as Treasurer, at 27 Ryan Road, Shelby, Ohio 44875.

**Note 15 – Group Purchasing Pool**

**Metropolitan Educational Council (MEC)** – The School District participates in the MEC purchasing pool, which allows the School District to purchase items at a discount. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases. The MEC is a distinct political subdivision of the State of Ohio operated under the direction of a 28 member Board consisting of one representative from each participating school district in Franklin County and one representative from each County outside of Franklin.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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**Note 16 - Insurance Purchasing Pool**

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 17 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the School 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	\$43,004,098
Electronic Data Processing Equipment	1,000	2,768,927
Automobile Liability	250/500	1,000,000
Uninsured Motorist	250/500	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability		2,000,000
Employer's Liability		2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

***B. Workers' Compensation***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.



**Shelby City School District**  
*Notes to the Basic Financial Statements*  
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**C. Employee Insurance Benefits**

Medical/surgical, life and dental insurance are offered to employees through a self-insurance internal service fund. The School District's monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$513,379 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2005	\$308,623	\$2,823,143	\$2,653,186	\$478,580
2006	478,580	2,652,435	2,617,636	513,379

**Note 18 - Defined Benefits Pension Plans**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$243,092, \$439,409, and \$250,436, respectively; 57.93 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

**Shelby City School District**  
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New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$983,815, \$1,657,518, and \$1,118,676, respectively; 86.89 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$13,460 made by the School District and \$28,441 made by the plan members.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 19 - Postemployment Benefits**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**Shelby City School District**  
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All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$75,678 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$113,168.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

## **Note 20 - Other Employee Benefits**

### ***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. Sick leave may be accumulated to a maximum of 200 days for administrative personnel and 184 days for all other personnel. Upon retirement, all employees receive payment for one-fourth of accrued, but unused sick leave accumulation, up to a maximum of 50 days for administrative employees and 46 days for all other employees.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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***B. Deferred Compensation***

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**Note 21 – Leases**

***A. Operating Lease***

The School District is obligated under certain leases accounted for as operating leases. The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2006.

<b>Fiscal Year Ending June 30</b>	<b>Amounts</b>
2007	\$26,767
2008	8,922
Total Minimum Payments Required	<u><u>\$35,689</u></u>

***B. Capital Lease***

The School District has entered into leases for copier equipment. The lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Lease," and have been recorded on the government-wide statements. The equipment has been capitalized in the amount of \$116,674, the present value of the minimum lease payments at the inception of the leases. These leases were completely paid during fiscal year 2006.

**Note 22 - Set Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-Aside Reserve Balance as of June 30, 2005	\$2,557	\$0	(\$47,768)
Current Year Set-aside Requirement	7,928	314,345	314,345
Current Year Offsets		(309,827)	0
Qualifying Disbursements	<u>(10,485)</u>	<u>(194,089)</u>	<u>(21,825)</u>
Total	<u>\$0</u>	<u>(\$189,571)</u>	<u>\$244,752</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$0</u>	<u>\$244,752</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$0</u>	<u>\$0</u>	<u>\$244,752</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside. The extra amount in the capital acquisition set-aside may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

**Note 23 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

***B. Litigation***

The School District is not a party to any legal proceedings.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**Note 24 – Interfund Balances**

	Interfund Receivable
Interfund Payable	General
Other Governmental Funds:	
Title I	\$3,839
Title V	10,458
Drug Free Schools Grant	876
Title VI-R	19,586
Miscellaneous Federal Grants	32,696
<i>Total Other Governmental Funds</i>	67,455
Enterprise Fund:	
Food Service	84,368
Internal Service Fund:	
Self Insurance	165,093
<i>Total All Funds</i>	\$316,916

Interfund receivables and payables are due to the timing of the receipt of grant monies received by the various funds. The general fund provides temporary funding of the program until the grant dollars are received. Advances made from the general fund to the food service enterprise fund were made to move unrestricted balances to support the program. Advances made from the general fund to the self-insurance internal service fund were made to prevent a deficit in cash in the self-insurance internal service fund. The advances to grant funds will be repaid when grant monies are received. The advances to the proprietary funds will be repaid when there is a sufficient amount of cash in these funds to do so.

**Note 25 – Public Utility Property Tax Refund**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of that refund is estimated to be approximately \$17,712 per year. A portion of the refund may be recovered from additional State entitlement payments.

**Note 26 – Situation of Financial Distress**

Based on a five year forecast, the Ohio Department of Education placed the School District in fiscal caution on October 8, 2004 pursuant to the Ohio Revised Code. On April 7, 2005, the Auditor of State placed the School District in fiscal emergency.

**Shelby City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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Major revenue factors contributed to the School District's bleak financial projections including the failure to renew levies and a bankruptcy of a major (taxpayer) company. Also, new development within the District boundaries is very limited and property values have stagnated. The School District has also experienced significant reductions in state revenues, due to both declining student population and statewide reductions in the funding formula resulting from Ohio's economic crisis. Increased utility costs related to construction mandates in facilities, double-digit health care increases and state spending requirements for textbook purchases contributed to the School District fiscal crisis.

During fiscal year 2005 and 2006 and continuing in fiscal year 2007, the School District took steps in order to regain financial stability. On May 3, 2005 the voters approved a one percent income tax that became effective on January 1, 2006, which is estimated to generate \$2,000,000 annually. In accordance with the recovery plan, the School District reduced staffing levels and closed one elementary school to reduce expenditures for the District by an estimated \$3.2 million.

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**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed through the Ohio Department of Education:</i>						
Food Donation Program	N/A	10.550		\$29,008		\$29,008
Child Nutrition Cluster:						
School Breakfast Program	044776-05-PU-05	10.553	\$3,383		\$3,383	
	044776-05-PU-06		31,851		31,851	
Total School Breakfast Program			35,234		35,234	
National School Lunch Program	044776-LL-P4-05	10.555	31,201		31,201	
	044776-LL-P4-06		191,224		191,224	
Total National School Lunch Program			222,425		222,425	
Total Child Nutrition Cluster			257,659		257,659	
Total U.S. Department of Agriculture			257,659	29,008	257,659	29,008
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044776-C1-S1-05	84.010	(7,135)		9,289	
	044776-C1-S1-06		224,089		220,265	
Total Title I Grants to Local Educational Agencies			216,954		229,554	
Special Education - Grants to States	044776-6B-PB-05	84.027	5,795		515	
	044776-6B-SD-05				327	
	044776-6B-SF-05		2,755		11,270	
	044776-6B-SF-06		511,167		472,184	
Total Special Education - Grants to States			519,717		484,296	
Safe and Drug-Free Schools and Communities - State Grants	044776-DR-S1-05	84.186	(1,278)		50	
	044776-DR-S1-06		8,204		6,021	
Total Safe and Drug-Free Schools and Communities - State Grants			6,926		6,071	
State Grants for Innovative Programs	044776-C2-S1-05	84.298	(2,058)		2,569	
	044776-C2-S1-06		5,200		4,919	
Total State Grants for Innovative Programs			3,142		7,488	
Education Technology State Grants	044776-TJ-S1-05	84.318	(1,821)		115	
	044776-TJ-S1-06		4,547		5,000	
Total Education Technology State Grants			2,726		5,115	
Improving Teacher Quality State Grants	044776-TR-S1-05	84.367	(5,689)		4,392	
	044776-TR-S1-06		90,861		99,960	
Total Improving Teacher Quality State Grants			85,172		104,352	
Total U.S. Department of Education			834,637		836,876	
<b>Totals</b>			<b>\$1,092,296</b>	<b>\$29,008</b>	<b>\$1,094,535</b>	<b>\$29,008</b>

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

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

**NOTE C – CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



# Mary Taylor, CPA

Auditor of State

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

Shelby City School District  
Richland County  
25 High School Avenue  
PO Box 31  
Shelby, Ohio 44875

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 4, 2007, in which we noted we were unable to obtain assurance regarding land and other capital assets net of depreciation, depreciation expense, and invested in capital assets net of related debt. We also noted the District restated its June 30, 2005 net assets/fund balances of the Governmental Activities, General Fund, Food Service Fund, and Internal Service Fund due to a fund reclassification and understatements and overstatements of certain liabilities. In addition, we noted the District is experiencing certain financial difficulties. We also noted the Auditor of State served as the District's financial supervisor under Ohio Rev. Code Section 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District, because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code Section 118.04. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2006-003 through 2006-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2006-006 listed above to be a material weakness. In a separate letter to the District's management dated May 4, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002. In a separate letter to the District's management dated May 4, 2007, we reported other matters related to noncompliance we deemed immaterial.

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



Mary Taylor, CPA  
Auditor of State

May 4, 2007



# Mary Taylor, CPA

## Auditor of State

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

Shelby City School District  
Richland County  
25 High School Avenue  
PO Box 31  
Shelby, Ohio 44875

To the Board of Education:

#### Compliance

We have audited the compliance of Shelby City School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2006-008.

### **Internal Control Over Compliance**

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings as item 2006-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable described above is a material weakness.

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



Mary Taylor, CPA  
Auditor of State

May 4, 2007

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A - 133 § .505  
JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010, Title I Grants to Local Educational Agencies; CFDA # 84.027, Special Education_Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2006-001**

**Finding for Recovery Repaid Under Audit**

Per the Shelby City School District Purchase Requisition, Marilyn Vance was to be paid \$.405 per mile for 20 miles a day for transporting her granddaughter to the Richland County Cooperative Preschool. Based on 26 days of transportation between September 12, 2005 and December 19, 2005, she should have been paid \$210.60. She was actually paid \$421.20 for an overpayment of \$210.60.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Marilyn Vance in the amount of \$210.60 and in favor of the District's General Fund. On February 22, 2007, Marilyn Vance repaid the District the full amount of \$210.60.

**Official's Response:** As noted in the audit report the overpayment has been recovered.

## FINDING NUMBER 2006-002

### Noncompliance Citation

**Ohio Rev. Code Section 3315.40** states the board of education of a city school district may establish an education foundation fund. Monies in the fund shall consist of proceeds paid into the fund under division (B) of section 3313.36. **Ohio Rev. Code Section 3315.41** states “a board of education may create a trust for investment of money in the education foundation fund created pursuant to section 3315.40 of the revised code. The instrument creating such a trust shall do all of the following: (D) Require the trustee to administer the trust, including but not limited to, holding, investing, and reinvesting the trust principal; collecting the income from the investments; and, after deducting the costs of administering the trust and, if applicable, the trustee’s compensation, paying the net income to the school district treasurer for payment into the school district education foundation fund as beneficiary. In addition, the Trust Indenture between the District and the Shelby Foundation for the Moody Investment Trust states “...The Shelby Foundation shall administer the Moody Trust, including but not limit paying the net income to the Treasurer of the Shelby City School District for payment into the Moody Scholarship Fund of the Education Foundation Fund as beneficiary. Such net income shall be paid monthly.”

**Ohio Rev. Code Section 3315.40** also states moneys in the fund shall be expended only by resolution adopted by a majority of the members of the board for operating or capital costs of any existing or new and innovative program designed to enhance or promote education within the district or service center, such as scholarships for students or teachers. **Ohio Rev. Code Section 5705.41(B)** requires no subdivision or taxing unit to expend money unless it has been appropriated.

By Board resolution dated June 8, 2004, the District established the Moody Scholarship Fund (the Fund) within the Education Foundation Fund, and directed the Treasurer to pay to the Shelby Foundation (the Foundation) the principal of the Fund for investment purposes. The Foundation is acting as trustee on behalf of the District for the Fund. However, the Foundation has not paid the net income from the Fund to the District to be placed in the Education Foundation Fund. Instead, the Foundation has maintained the income and the District Scholarship Committee submits names to the Foundation for the Foundation to write scholarship checks to the students submitted by the Scholarship Committee. As a result, there was not a resolution by a majority of the members of the board of education for the disbursement of the scholarships, nor was the money appropriated.

The District should require the Foundation, as trustee, to pay the net income of the Fund to the District to be placed in the Education Foundation Fund pursuant to the Ohio Revised Code and the Trust Indenture. In addition, the District should ensure they are following the requirements of the Ohio Revised Code when disbursing money from the Fund.

**Official’s Response:** This practice was well established before the current Treasurer was employed. The finding will be reviewed with the Board of Education and the Treasurer will follow the Board’s recommendation in the matter.

## FINDING NUMBER 2006-003

### Reportable Condition

#### Moody Scholarship Trust Fund

In prior years, the District received \$242,282.47 for scholarships from a trust. The trust agreement required the District to “invest in quality common stocks or bonds, or other prudent investments approved by a scholarship committee...” As previously described in Finding Number 2006-002, the District deposited the Moody Scholarship Trust with the Shelby Foundation for investment purposes pursuant to Ohio Rev. Code sections 3313.36, 3315.40 and 3315.41.



**FINDING NUMBER 2006-003 (Continued)**

**Reportable Condition (Continued)**

As a result of this activity in fiscal year 2004, the balance of the trust fund was removed from the District's books, resulting in the activity from the trust, such as interest earned, administrative costs, and scholarships awarded, not being recorded on the District's books. Further, the Shelby Foundation distributed quarterly reports to the District for review, but there was no indication that anyone had reviewed them. These reports did not have detail for the investments held, bought, or sold during the period, nor did they have detail for the calculations of the investment income earned or administrative fees charged to the trust.

The following table documents the activity of the trust for the current fiscal year and for the period beginning on July 30, 2004 through June 30, 2006:

	Activity FY 2006	Total through June 30, 2006
Interest Earned	\$1,603	\$4,950
Administrative Fees	3,726	5,106
Net (Loss)	(2,123)	(156)
Scholarships Awarded	8,000	8,000
Beginning Balance	244,249	242,282
Ending Balance	<u>\$234,126</u>	<u>\$234,126</u>

By not showing this activity on the District's books, the District is understating its cash balances, revenues, and expenditures. Also, without reviewing the quarterly reports, the District is not able to monitor the progress of the investment of the trust fund.

The District should show the trust balance on the District's books, along with all of the activity from the investment. This will allow the District to track the activity of the trust. Also, the District should review the quarterly reports received from the Shelby Foundation to monitor the progress of the investment and the District should require detailed explanations of investment fees and the investment activities. Finally, the District should review the activity of the investment to ensure it is a "prudent investment" as required by the Trust Agreement.

A similar matter was reported in the management letter of the June 30, 2005, audit of the financial statements.

**Official's Response:** Investment results were discussed with the Director of the Shelby Foundation early in 2007. The Director explained that investment results in 2005-2006 were less than anticipated due to general economic conditions. He was optimistic that results in 2007 would show improvement. A copy of 2007 quarterly reports was requested by telephone from the Director on June 6, 2007.

**FINDING NUMBER 2006-004**

**Reportable Condition**

**Cash Reconciliation**

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of the cash in the accounting records. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time.

### FINDING NUMBER 2006-004 (Continued)

#### Reportable Condition (Continued)

We noted the following with respect to the District's bank reconciliations:

- At June 30, 2006, the District's cash reconciliation reported a reconciling item for "March Outstanding Deposits" in the amount of \$462 for which there was no supporting documentation. Further investigation determined this amount started out as \$602 in the March 2006 reconciliation. \$140 of the total \$602 was deposited in March 2006 and posted in April 2006, but the remaining \$462 was determined to have been deposited and posted on April 7, 2006. Therefore, the amount of \$462 should never have been an outstanding item for the March 2006 reconciliation or for any subsequent months.

At June 30, 2006, the District's cash reconciliation reported a reconciling item for "June Non-Cafeteria Deposits not Posted" in the amount of \$985 for which there was no supporting documentation. Further investigation found \$945 of receipts deposited in June 2006, but not posted until July 2006. However, the remaining \$40 was not supported.

At June 30, 2006, the District's cash reconciliation did not include an amount of \$2,068.74 deposited to the bank on June 28, 2006 and posted to the books on July 3, 2006.

The District should ensure all reconciling items are supported by appropriate documentation and all errors noted in the reconciliation process are corrected as soon as possible. This includes, but is not limited to, ensuring all deposits per the bank statement(s) agree to amounts received in the financial records and ensuring only those amounts that were deposited one month and not posted until the next month are recorded as reconciling items.

- At June 30, 2006, a check in the amount of \$435 was incorrectly included on the outstanding check list. Further investigation determined the check had been carried as an outstanding check since April 2006. However, the check was written and cleared the bank on April 28, 2006, and therefore, should not have been an outstanding check at any time.

The District should match the checks clearing the bank from the bank statement to the system to ensure all checks that cleared the bank are marked as being cleared in the system.

As a result of the errors noted above, as of June 30, 2006, the District's reconciliation indicates the book balance is \$1,132 higher than the bank balance. Subsequent to year end, the District hired an accounting firm to help them reconcile. The accounting firm and the Treasurer identified various errors including but not limited to, bank account transfer errors and over/under posting of certain expenses. As of April 30, 2007, the District reconciled its books to a variance of \$1,925 bank over books.

Without complete and accurate monthly bank reconciliations, the District's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The District should perform complete monthly bank reconciliations in a timely manner. Also, the Treasurer should initial the bank reconciliation to indicate approval and a copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the Board of Education each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

**Official's Response:** An outside accounting firm was retained to review the cash balance through April 2007. As noted in the above Finding, the Treasurer and accounting firm were able to reconcile cash at April 30, 2007 to a variance of \$1,925 bank over books. The audit staff inspected this reconciliation and acknowledged that net adjustments increasing the book balance by \$1,925 should be posted by the District to reconcile. Cash was reconciled to the books accurately for May 2007, and the general practice will be to close the books with cash reconciled for the preceding month by the fifth business day of each month. Cash reconciliations are presented to the Board each month with the regular financial.

## FINDING NUMBER 2006-005

### Reportable Condition

#### Self Insurance Claim Payments

The third party administrator (Medical Mutual) invoices the amount of medical claims needing to be paid to the District, and the District transfers that amount from their STAR Ohio account to Medical Mutual and records the transaction as a memo expenditure in the ledger.

We noted the following problems in regards to the self insurance claim payments:

- 15 of the 28 payments made during the fiscal year could not be traced from the transfer out from the STAR Ohio account to the expenditure ledger.
- The transfers made from the STAR Ohio account did not always get posted to the expenditure ledger timely, with some amounts not being posted for up to 29 days after the date of the transfer of funds.
- 27 of the 28 payments made during the year did not agree between the amount transferred from the STAR Ohio account, the amount posted to the expenditure ledger, and the amount on the invoice. In addition, the invoices from Medical Mutual did not indicate when the transfer of funds was made, which did not allow the amount to be traced to the expenditure ledger.
- For the fiscal year, the total transfers from the STAR Ohio account exceeded the amounts posted to the expenditure ledger by \$14,063.

The District should implement procedures to ensure adequate supporting documentation is attached to each transfer made to Medical Mutual. The invoice should include the date of the transfer so it can be agreed to the STAR Ohio account. In addition, if the amount paid is different than the invoice, that amount should be documented on the invoice so the correct amount can be traced and agreed to the STAR Ohio account. In addition, the transfers should be posted to the expenditure ledger on a timely basis. These procedures will provide an audit trail for management to ensure the amount posted to the expenditure ledger agrees with the invoice and STAR Ohio bank account.

A similar matter was reported in the management letter of the June 30, 2005, audit of the financial statements.

**Official's Response:** Since January of 2007 transfers have been made in the correct amount and documented on the due date indicated by the invoice. The cash reconciliation process provides a further check on the accuracy of the payments and posting. It has been our practice to post the month's transactions, including payment of premiums to the books in a single entry after the last payment of each month. This process seems to provide for a more accurate and complete posting especially since two payments (fees & claims) are due the first week of the month and must be held for posting after the books are closed.

## FINDING NUMBER 2006-006

### Material Weakness

#### Capital Assets

The District does not maintain a comprehensive written capital asset policy nor maintain comprehensive records to account for capital asset balances, additions, deletions and accumulated depreciation. The District has various capital asset reports that indicate different balances for capital assets, which do not agree to what is reported in the financial statements. Failure to update the capital asset listing when assets are purchased or deleted eliminates the ability of the District to accurately present the value of its capital assets.

**FINDING NUMBER 2006-006 (Continued)**

**Material Weakness (Continued)**

The District should:

- Develop a capital asset policy that includes a capital asset recording threshold; a method for recording depreciation which includes the date the asset was placed in service and the point at which depreciation will begin (i.e., half year, full year, month or day) whenever an item is placed into service, salvage value (if any), and useful life.
- Appropriate documentation forms for the addition, deletion or movement of an asset from one location to another with approval for deletions by the Board of Education recorded in the District's minute records.
- Maintain a detailed capital asset list by asset class (i.e., buildings, vehicles, etc.) and by department/function which will assist in the preparation of the District's basic financial statements. The list should also accurately reflect all current and accumulated depreciation, District affixed tag numbers, serial numbers (where applicable), asset placed into service date, salvage value, market value, etc.
- Perform a physical count of capital assets to ensure all appropriate assets are properly included or excluded on the capital asset list and then perform periodic physical counts, at least annually, to ensure the capital asset list properly reflects the District's capital assets and the building utilizing the asset.

**Official's Response:** Estimates for a complete inventory have been obtained from two appraisal firms. Costs are in the range of \$6,500 – \$8,000. The District plans to accept one of the proposals and begin the process of re-inventorying its assets during the summer of 2007.

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number:</b>	<b>2006-007</b>
<b>CFDA Title and Number:</b>	<b>Food Donation / 10.550</b>
<b>Federal Award Number / Year:</b>	<b>N/A / 2006</b>
<b>Federal Agency:</b>	<b>U.S. Department of Agriculture</b>
<b>Pass-Through Agency:</b>	<b>Ohio Department of Education</b>

**Reportable Condition**

The "Ohio's Donated Food Distribution Program Manual" (revised March 2003) explains requirements of donated food distribution program including inventory valuation and storage requirements.

The District receives commodities each month which are delivered to Shelby Senior High and are stored there until needed at the High School or one of the other schools of the District. The following deficiencies were noted when reviewing the commodity inventory:

- The commodities are valued at the USDA unit cost instead of market value.
- Not all of the commodities distributed in the District's name were recorded by the District. This was due to some commodities shipped directly to a food processing plant, and therefore, commingled with other foods.

**FINDING NUMBER 2006-007 (Continued)**

**Reportable Condition (Continued)**

- The commodities are received at the Senior High, and from there are transferred to the individual schools when needed; however, when they are transferred, the value of the transferred commodities are added to the inventory of the receiving site, but they are not subtracted from the inventory of the sending site, which would record the receiving of the same commodities twice.

These deficiencies caused the District’s inventory of commodities to be misstated. To correct these deficiencies, the District should implement the following:

- The donated foods should be valued at the local wholesale price, which is usually obtained from the vendor.
- The District needs to ensure all commodities issued in the District’s name are recorded. This would include commodities received at the District along with the commodities shipped directly to a food processing plant.
- When commodities are transferred to the individual schools from the Senior High, the value of the transferred commodities should be added to the inventory of the receiving site and should be subtracted from the inventory of the sending site to avoid recording the receipt of the same inventory twice.

**Official’s Response and Corrective Action Plan:** This matter was discussed with the Food Service Director, the Treasurer, and the audit team. It was the Treasurer’s impression that audit concerns had been allayed after that conversation.

<b>Finding Number:</b>	<b>2006-008</b>
<b>CFDA Title and Number:</b>	<b>Special Education-Grants To States / 84.027</b>
<b>Federal Award Number / Year:</b>	<b>044776-6B-SF-2006</b>
<b>Federal Agency:</b>	<b>U.S. Department of Education</b>
<b>Pass-Through Agency:</b>	<b>Ohio Department of Education</b>

**Noncompliance**

2 CFR Part 225 Appendix A, paragraph C.1 states “to be allowable under Federal awards, costs must meet the following general criteria:…be adequately documented.

During the testing of Allowable Cost/Cost Principals, Cash Management and Reporting for the Special Education grant, we noted the following:

- To adjust expenditures as a result of over spending the grant, the Treasurer made numerous adjustments to the Special Education Federal expenditures by recording negative expenditures in the Special Education Fund and reallocating the expenditures to the General Fund. However, there was no supporting documentation to indicate what expenditures were reallocated to the General Fund, making it difficult for management to determine what remaining expenditures were related to the grant.

Without supporting documentation for the adjustments, it is not possible to determine what expenditures in the Special Education Fund were actually charged to the grant.

**FINDING NUMBER 2006-008 (Continued)**

**Noncompliance (Continued)**

The Treasurer should more closely monitor the expenditures during the year by comparing the amount spent per object code in the District's expenditure ledger to the object code's budget as approved by ODE so there is no need to make adjustments at fiscal year end to correct overspending. In addition, if there are adjustments that are necessary, the Treasurer should maintain detailed supporting documentation to support the exact amount and reason for the adjustment, such as the amount of payroll and fringe benefits, along with the teacher and aide names.

**Official's Response and Corrective Action Plan:** Every effort will be made to minimize the number of adjustments to the grant accounts; however as the Treasurer is new to the District adjustments may be necessary at times. Documentation will be provided.

**SHELBY CITY SCHOOL DISTRICT  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2005-001	ORC 5705.36 – The District did not file their annual appropriation resolution with the County Auditor.	Yes	Finding No Longer Valid.
2005-002	ORC 5705.10 – The District had various funds with a negative cash balance during the year.	No	Partially Corrected. See Noncompliance citation in the Management Letter.
2005-003	ORC 5705.41(D) – The District had 77% of expenditures tested not certified by the Treasurer prior to the purchase commitment.	No	Partially Corrected. See Noncompliance citation in the Management Letter.
2005-004	Capital Assets – The capital assets in the financial statements were not supported by the District’s records.	No	Not Corrected. See Finding Number 2006-006.
2005-005	Purchasing Cycle Controls – There were various control failures with the purchasing cycle.	No	Partially Corrected. See Recommendation in the Management Letter.
2005-006	Intergovernmental Revenue Controls – There were various control failures with the intergovernmental revenue cycle.	Yes	Finding No Longer Valid.
2005-007	Retention of Records – The District did not have supporting documentation for the Project Cash Request forms.	Yes	Finding No Longer Valid.
2005-008	Review of Special Education Grant Monthly Activity Reports – The District Treasurer and Grant Coordinator were not adequately monitoring the activity of the grants.	No	Not Corrected. See Finding Number 2006-008.
2005-009	The “Ohio’s Donated Food Distribution Program Manual” – The District was not valuing or tracking donated commodities accurately.	No	Not Corrected. See Finding Number 2006-007.







Mary Taylor, CPA  
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  
JULY 3, 2007