

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2016*

ELIZABETH ANATRA, TREASURER



Dave Yost • Auditor of State

Board of Education
Shelby City School District
25 High School Avenue
Shelby, Ohio 44875

We have reviewed the *Independent Auditor's Report* of the Shelby City School District, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Shelby City School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 5, 2017

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

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Shelby City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the Shelby City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shelby City School District's internal control over financial reporting and compliance.



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

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The management's discussion and analysis of the Shelby City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net position of governmental activities increased \$555,256 which represents a 6.05% increase from the 2015 net position.
- General revenues accounted for \$19,010,781 in revenue or 81.60% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,285,963 or 18.40% of total revenues of \$23,296,744.
- The District had \$22,741,488 in expenses related to governmental activities; only \$4,285,963 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,010,781 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had \$19,532,238 in revenues and \$18,145,556 in expenditures. During fiscal year 2016, the general fund's fund balance increased \$1,386,682 from \$7,106,704 to \$8,493,386.

Using these Basic Financial Statements

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

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

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

MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2016?” The Statement of Net Position and the Statement of Activities answer this question. These statements include *all (non-fiduciary) assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

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

The District’s statement of net position and statement of activities can be found on pages 16-17 of this report.

Reporting the District’s Most Significant Fund

Fund Financial Statements

The analysis of the District’s major governmental fund begins on page 12. Fund financial reports provide detailed information about the District’s major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant fund. The District’s major fund is the general fund.

Governmental Funds

Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District’s fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 23 and 24. These activities are excluded from the District’s other financial statements because the assets cannot be utilized by the District to finance its operations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-63 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 64 through 70 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The District as a Whole

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

The table below provides a summary of the District's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Assets</u>		
Current and other assets	\$ 19,574,896	\$ 19,344,799
Capital assets, net	<u>22,685,048</u>	<u>23,344,941</u>
Total assets	<u>42,259,944</u>	<u>42,689,740</u>
<u>Deferred Outflows of Resources</u>		
Unamortized deferred charges on debt refunding	99,378	102,766
Pension	<u>2,492,583</u>	<u>1,625,129</u>
Total deferred outflows of resources	<u>2,591,961</u>	<u>1,727,895</u>
<u>Liabilities</u>		
Current liabilities	2,201,902	3,312,736
Long-term liabilities:		
Due within one year	484,116	549,827
Due in more than one year:		
Net pension liability	25,603,947	22,186,816
Other amounts	<u>18,447,639</u>	<u>18,570,374</u>
Total liabilities	<u>46,737,604</u>	<u>44,619,753</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	5,038,504	4,962,848
Pensions	<u>1,691,415</u>	<u>4,005,908</u>
Total deferred inflows of resources	<u>6,729,919</u>	<u>8,968,756</u>
<u>Net Position</u>		
Net investment in capital assets	5,824,804	6,468,484
Restricted	2,892,754	3,022,593
Unrestricted (deficit)	<u>(17,333,176)</u>	<u>(18,661,951)</u>
Total net position (deficit)	<u>\$ (8,615,618)</u>	<u>\$ (9,170,874)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

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

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

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

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

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

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

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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$8,615,618.

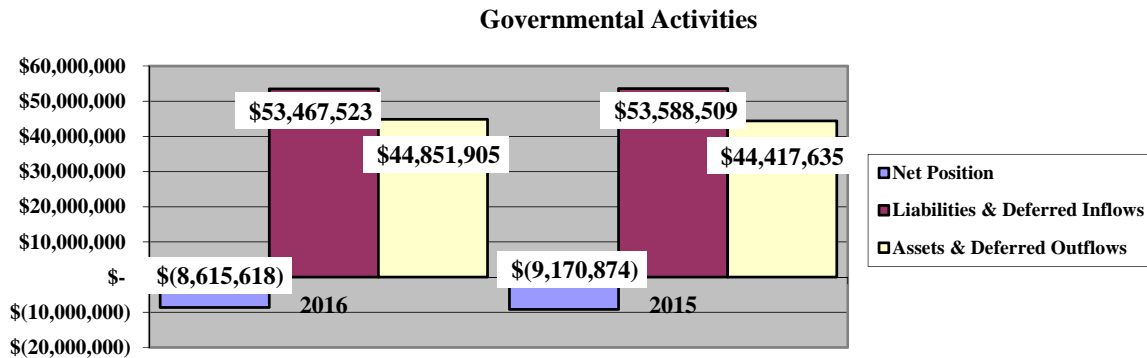
**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

At year end, capital assets represented 53.68% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. Net investment in capital assets at June 30, 2016, was \$5,824,804. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$2,892,754, represents resources that are subject to external restriction on how they may be used.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2016 and June 30, 2015.



The table below shows the change in net position for fiscal years 2016 and 2015.

	Change in Net Position	
	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,283,282	\$ 1,232,811
Operating grants and contributions	2,979,763	3,332,189
Capital grants and contributions	22,918	14,935
General revenues:		
Property taxes	6,043,631	6,374,106
Income taxes	2,688,269	2,619,334
Grants and entitlements not restricted	10,221,542	9,699,226
Investment earnings	29,537	13,096
Miscellaneous	27,802	39,426
Total revenues	23,296,744	23,325,123

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

	Change in Net Position	
	Governmental Activities	
	2016	2015
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	9,264,370	8,461,413
Special	3,305,783	3,349,304
Vocational	114,266	116,659
Adult/continuing	11,179	-
Other	16,242	7,503
Support services:		
Pupil	1,140,926	967,715
Instructional staff	662,840	618,398
Board of Education	59,212	61,907
Administration	1,570,344	1,434,659
Fiscal	707,202	685,236
Operations and maintenance	2,132,118	1,774,469
Pupil transportation	987,943	1,038,782
Central	219,001	287,041
Operation of non-instructional services:		
Other non-instructional services	174,600	184,127
Food service operations	1,125,967	1,046,216
Extracurricular activities	669,940	668,485
Interest and fiscal charges	579,555	769,520
Bond issuance costs	-	253,526
	22,741,488	21,724,960
Special items	-	(1,217,714)
Changes in net position	555,256	382,449
Net position (deficit) at beginning of year	(9,170,874)	(9,553,323)
Net position (deficit) at end of year	\$ (8,615,618)	\$ (9,170,874)

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

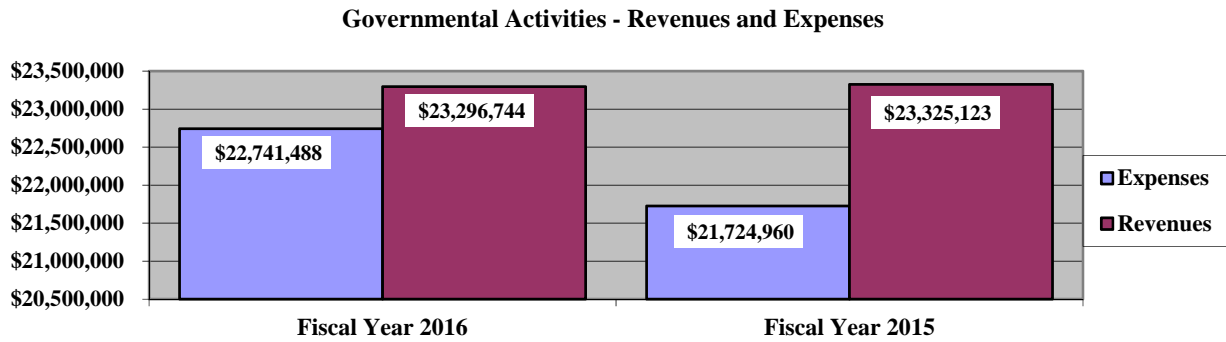
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Governmental Activities

Net position of the District's governmental activities increased \$555,256. Total governmental expenses of \$22,741,488 were offset by program revenues of \$4,285,963 and general revenues of \$19,010,781. Program revenues supported 18.85% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 81.36% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2016 and 2015.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses:				
Instruction:				
Regular	\$ 9,264,370	\$ 8,546,270	\$ 8,461,413	\$ 7,679,860
Special	3,305,783	1,397,237	3,349,304	1,296,607
Vocational	114,266	71,620	116,659	77,770
Adult/continuing	11,179	11,179	-	-
Other	16,242	16,242	7,503	7,503
Support services:				
Pupil	1,140,926	1,051,201	967,715	853,217
Instructional staff	662,840	655,594	618,398	607,262
Board of education	59,212	59,212	61,907	61,907
Administration	1,570,344	1,528,747	1,434,659	1,410,954
Fiscal	707,202	707,202	685,236	684,845
Operations and maintenance	2,132,118	2,109,356	1,774,469	1,751,340
Pupil transportation	987,943	924,847	1,038,782	976,080
Central	219,001	219,001	287,041	287,041
Operation of non-instructional services:				
Other non-instructional services	174,600	(25,328)	184,127	8,464
Food service operations	1,125,967	72,135	1,046,216	39,323
Extracurricular activities	669,940	531,455	668,485	541,663
Interest and fiscal charges	579,555	579,555	769,520	769,520
Bond issuance costs	<u>-</u>	<u>-</u>	<u>253,526</u>	<u>91,669</u>
Total expenses	<u>\$ 22,741,488</u>	<u>\$ 18,455,525</u>	<u>\$ 21,724,960</u>	<u>\$ 17,145,025</u>

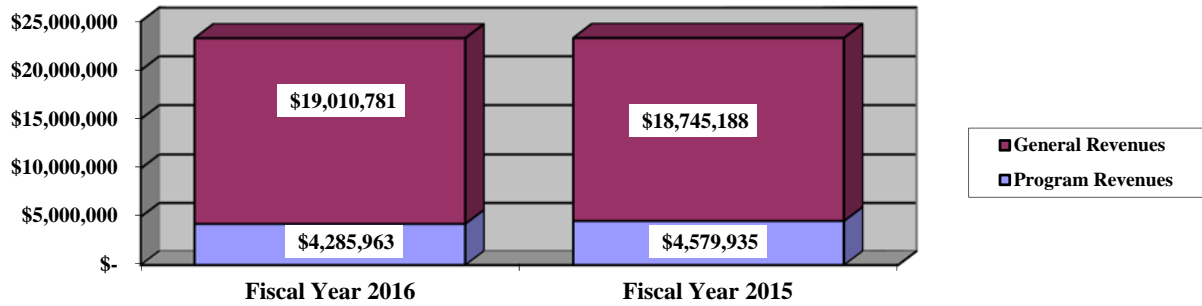
The dependence upon tax and other general revenues for governmental activities is apparent, as 79.00% of instruction activities in fiscal year 2016 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.26% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2016 and 2015.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$11,981,344, which is higher than last year's total of \$10,572,142. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	<u>Fund Balance June 30, 2016</u>	<u>Fund Balance June 30, 2015</u>	<u>Change</u>	<u>Percentage Change</u>
General	\$ 8,493,386	\$ 7,106,704	\$ 1,386,682	19.51 %
Other governmental	<u>3,487,958</u>	<u>3,465,438</u>	<u>22,520</u>	0.65 %
Total	<u>\$ 11,981,344</u>	<u>\$ 10,572,142</u>	<u>\$ 1,409,202</u>	13.33 %

General Fund

The District's general fund balance increased \$1,386,682. Revenues of the general fund increased during the fiscal year primarily due to an increase in state foundation.

During fiscal year 2016, all expenditures remained comparable to the prior fiscal year, with the exception of bond issuance costs that resulted from the issuance of the 2014 refunding bonds in the amount of \$253,526 expended in fiscal year 2015, of which no comparable amounts were expended in fiscal year 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

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

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 7,599,075	\$ 7,761,070	(2.09) %
Earnings on investments	27,542	11,268	144.43 %
Intergovernmental	11,091,703	10,645,048	4.20 %
Other revenues	<u>813,918</u>	<u>810,251</u>	0.45 %
Total	<u>\$ 19,532,238</u>	<u>\$ 19,227,637</u>	1.58 %
<u>Expenditures</u>			
Instruction	\$ 10,807,965	\$ 10,511,679	2.82 %
Support services	6,772,039	6,515,528	3.94 %
Extracurricular activities	508,010	481,615	5.48 %
Operation of non-instructional services	8,398	9,231	(9.02) %
Debt service	<u>49,144</u>	<u>49,144</u>	- %
Total	<u>\$ 18,145,556</u>	<u>\$ 17,567,197</u>	3.29 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$19,241,142. Final budgeted revenues and other financing sources were \$19,595,500. Actual revenues and other sources for fiscal year 2016 were \$19,491,302. This represents a \$104,198 decrease from final budgeted revenues and other financing sources.

General fund original appropriations of \$17,439,924 were increased to \$19,232,001 in the final appropriations. The actual budget basis expenditures for fiscal year 2016 totaled \$18,161,679, which were \$1,070,322 less than final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$22,685,048 invested in land, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal year 2016 balances compared to 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 793,364	\$ 793,364
Land improvements	1,071,075	1,150,874
Buildings and building improvements	19,443,881	20,002,155
Furniture, fixtures and equipment	1,186,834	1,179,938
Vehicles	189,894	218,610
Total	\$ 22,685,048	\$ 23,344,941

The overall decrease in capital assets of \$659,893 is due to depreciation expense of \$836,369 exceeding capital outlays of \$176,476.

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

Debt Administration

At June 30, 2016, the District had \$93,348 in a capital lease obligation and \$16,311,329 in series 2010A and 2014 general obligation bonds outstanding. Of the District's total obligations of \$16,404,677, \$295,510 is due within one year and \$16,109,167 is due in more than one year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2016.

Outstanding Long-Term Debt at June 30, 2016

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
Series 2010A general obligation bonds	\$ 1,016,329	\$ 1,126,004
Series 2014 general obligation bonds	15,295,000	15,315,000
Capital lease obligation	<u>93,348</u>	<u>136,643</u>
Total	<u>\$ 16,404,677</u>	<u>\$ 16,577,647</u>

At June 30, 2016, the District's overall legal debt margin was \$4,218,097 with an unvoted debt margin of \$213,347.

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

Current Issues Affecting Financial Condition

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

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

A five year 4.5 mill emergency levy was renewed in November 2011. The levy has been placed on the November 2016 ballot for renewal.

Contacting the School District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 11,838,975
Cash in segregated accounts	12,643
Receivables:	
Property taxes	6,289,366
Income taxes.	1,126,688
Accounts.	10,102
Accrued interest	1,878
Intergovernmental	134,772
Prepayments	46,699
Materials and supplies inventory.	100,570
Inventory held for resale.	13,203
Capital assets:	
Land	793,364
Depreciable capital assets, net.	21,891,684
Capital assets, net	<u>22,685,048</u>
Total assets.	<u>42,259,944</u>
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	99,378
Pension - STRS	2,050,096
Pension - SERS	442,487
Total deferred outflows of resources	<u>2,591,961</u>
 Liabilities:	
Accounts payable.	237,505
Contracts payable.	2,760
Accrued wages and benefits payable	1,542,390
Intergovernmental payable	33,432
Pension and post employment benefits payable.	281,948
Accrued interest payable	103,867
Long-term liabilities:	
Due within one year.	484,116
Due in more than one year:	
Net pension liability	25,603,947
Other amounts due in more than one year	18,447,639
Total liabilities	<u>46,737,604</u>
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	5,038,504
Pension - STRS.	1,456,090
Pension - SERS.	235,325
Total deferred inflows of resources	<u>6,729,919</u>
 Net position:	
Net investment in capital assets	5,824,804
Restricted for:	
Capital projects	2,066,644
Classroom facilities maintenance	354,332
Debt service.	326,758
Locally funded programs	22,878
State funded programs.	43,463
Student activities	17,400
Other purposes	61,279
Unrestricted (deficit)	<u>(17,333,176)</u>
Net position (deficit)	<u>\$ (8,615,618)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 9,264,370	\$ 591,843	\$ 103,339	\$ 22,918	\$ (8,546,270)
Special	3,305,783	-	1,908,546	-	(1,397,237)
Vocational	114,266	-	42,646	-	(71,620)
Adult/continuing	11,179	-	-	-	(11,179)
Other	16,242	-	-	-	(16,242)
Support services:					
Pupil	1,140,926	46,514	43,211	-	(1,051,201)
Instructional staff	662,840	46	7,200	-	(655,594)
Board of education	59,212	-	-	-	(59,212)
Administration	1,570,344	24,586	17,011	-	(1,528,747)
Fiscal	707,202	-	-	-	(707,202)
Operations and maintenance	2,132,118	22,762	-	-	(2,109,356)
Pupil transportation	987,943	31,942	31,154	-	(924,847)
Central	219,001	-	-	-	(219,001)
Operation of non-instructional services:					
Other non-instructional services	174,600	4,907	195,021	-	25,328
Food service operations	1,125,967	428,095	625,737	-	(72,135)
Extracurricular activities	669,940	132,587	5,898	-	(531,455)
Interest and fiscal charges	579,555	-	-	-	(579,555)
Total governmental activities	\$ 22,741,488	\$ 1,283,282	\$ 2,979,763	\$ 22,918	(18,455,525)

General revenues:

Property taxes levied for:	
General purposes	4,855,076
Special revenue	104,207
Debt service	804,181
Capital outlay	280,167
Income taxes levied for:	
General purposes	2,688,269
Grants and entitlements not restricted to specific programs	10,221,542
Investment earnings	29,537
Miscellaneous	27,802
Total general revenues	19,010,781
Change in net position	555,256
Net position (deficit) at beginning of year	(9,170,874)
Net position (deficit) at end of year	\$ (8,615,618)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 8,398,826	\$ 3,427,798	\$ 11,826,624
Cash in segregated accounts	12,643	-	12,643
Receivables:			
Property taxes.	5,001,732	1,287,634	6,289,366
Income taxes	1,126,688	-	1,126,688
Accounts	5,061	5,041	10,102
Accrued interest	1,878	-	1,878
Intergovernmental.	42,748	92,024	134,772
Prepayments.	46,699	-	46,699
Materials and supplies inventory.	98,040	2,530	100,570
Inventory held for resale.	-	13,203	13,203
Loans to other funds.	17,591	-	17,591
Restricted assets:			
Equity in pooled cash and cash equivalents	12,351	-	12,351
Total assets	<u>\$ 14,764,257</u>	<u>\$ 4,828,230</u>	<u>\$ 19,592,487</u>
Liabilities:			
Accounts payable	\$ 216,617	\$ 20,888	\$ 237,505
Contracts payable.	-	2,760	2,760
Accrued wages and benefits payable	1,371,466	170,924	1,542,390
Compensated absences payable	27,207	-	27,207
Intergovernmental payable	31,038	2,394	33,432
Pension and post employment benefits payable	239,709	42,239	281,948
Loans from other funds	-	17,591	17,591
Total liabilities.	<u>1,886,037</u>	<u>256,796</u>	<u>2,142,833</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	4,006,961	1,031,543	5,038,504
Delinquent property tax revenue not available.	201,732	51,933	253,665
Income tax revenue not available	176,141	-	176,141
Total deferred inflows of resources	<u>4,384,834</u>	<u>1,083,476</u>	<u>5,468,310</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	98,040	2,530	100,570
Prepays.	46,699	-	46,699
Long-term loans.	17,591	-	17,591
Restricted:			
Debt service	-	861,869	861,869
Capital improvements	-	2,054,372	2,054,372
Classroom facilities maintenance	-	349,764	349,764
Food service operations	-	108,594	108,594
Non-public schools	-	36,263	36,263
Special education	-	4,548	4,548
Targeted academic assistance	-	6,697	6,697
Extracurricular.	-	17,400	17,400
Other purposes.	-	50,428	50,428
School bus purchases	12,351	-	12,351
Assigned:			
Student instruction	7,377	-	7,377
Student and staff support.	161,069	-	161,069
School supplies	55,050	-	55,050
Employee benefits	742,185	-	742,185
Other purposes.	511	-	511
Unassigned	7,352,513	(4,507)	7,348,006
Total fund balances	<u>8,493,386</u>	<u>3,487,958</u>	<u>11,981,344</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 14,764,257</u>	<u>\$ 4,828,230</u>	<u>\$ 19,592,487</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	11,981,344
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			22,685,048
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	253,665	
Income taxes receivable		176,141	
Total		429,806	429,806
Unamortized premiums on bonds issued are not recognized in the funds.			(1,021,282)
Unamortized amounts on refundings are not recognized in the funds.			99,378
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		2,492,583	
Deferred inflows of resources - pension		(1,691,415)	
Net pension liability		(25,603,947)	
Total		(24,802,779)	(24,802,779)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(103,867)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(16,311,329)	
Capital lease obligations		(93,348)	
Compensated absences		(1,478,589)	
Total		(17,883,266)	(17,883,266)
Net position (deficit) of governmental activities		\$	(8,615,618)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 4,909,466	\$ 1,197,498	\$ 6,106,964
Income taxes	2,689,609	-	2,689,609
Tuition	507,496	-	507,496
Transportation fees	31,942	-	31,942
Earnings on investments	27,542	7,481	35,023
Charges for services	-	428,095	428,095
Extracurricular	70,778	132,517	203,295
Classroom materials and fees	68,586	-	68,586
Rental income	22,762	-	22,762
Contributions and donations	22,963	18,018	40,981
Contract services	144	10,388	10,532
Other local revenues	89,247	25,078	114,325
Intergovernmental - state	11,048,086	405,311	11,453,397
Intergovernmental - federal	43,617	1,604,793	1,648,410
Total revenues	<u>19,532,238</u>	<u>3,829,179</u>	<u>23,361,417</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,458,103	134,405	8,592,508
Special	2,217,786	922,068	3,139,854
Vocational	116,507	-	116,507
Other	15,569	-	15,569
Support services:			
Pupil	1,091,674	172	1,091,846
Instructional staff	609,969	68,805	678,774
Board of education	59,212	-	59,212
Administration	1,529,969	-	1,529,969
Fiscal	667,275	30,964	698,239
Operations and maintenance	1,679,673	397,507	2,077,180
Pupil transportation	924,335	55,416	979,751
Central	209,932	-	209,932
Operation of non-instructional services:			
Other non-instructional services	8,398	166,202	174,600
Food service operations	-	967,236	967,236
Extracurricular activities	508,010	141,521	649,531
Facilities acquisition and construction	-	36,375	36,375
Debt service:			
Principal retirement	43,295	250,000	293,295
Interest and fiscal charges	5,849	635,988	641,837
Total expenditures	<u>18,145,556</u>	<u>3,806,659</u>	<u>21,952,215</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,386,682</u>	<u>22,520</u>	<u>1,409,202</u>
Other financing sources (uses):			
Transfers in	-	1,274,280	1,274,280
Transfers (out)	-	<u>(1,274,280)</u>	<u>(1,274,280)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,386,682	22,520	1,409,202
Fund balances at beginning of year	<u>7,106,704</u>	<u>3,465,438</u>	<u>10,572,142</u>
Fund balances at end of year	<u>\$ 8,493,386</u>	<u>\$ 3,487,958</u>	<u>\$ 11,981,344</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds		\$ 1,409,202
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 176,476	
Current year depreciation	(836,369)	
Total		(659,893)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(63,333)	
Income taxes	(1,340)	
Total		(64,673)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		293,295
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	787	
Accreted interest on capital appreciation bonds	(120,325)	
Amortization of bond premiums	105,704	
Amortization of deferred charges	(3,388)	
Total		(17,222)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,456,928
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,692,112)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(170,269)
Change in net position of governmental activities		\$ 555,256

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 4,745,447	\$ 5,104,000	\$ 5,106,628	\$ 2,628
Income taxes	2,646,708	2,629,000	2,628,985	(15)
Tuition	534,016	525,000	507,496	(17,504)
Transportation fees	25,634	25,000	35,677	10,677
Earnings on investments	12,445	12,000	25,024	13,024
Classroom materials and fees	16,334	16,000	18,775	2,775
Rental income	10,412	10,000	23,202	13,202
Contributions and donations	10,034	12,000	1,903	(10,097)
Contract services	10,003	10,000	144	(9,856)
Other local revenues	20,408	215,600	22,972	(192,628)
Intergovernmental - state	11,027,943	10,855,900	11,006,302	150,402
Intergovernmental - federal	80,758	80,000	42,653	(37,347)
Total revenues	<u>19,140,142</u>	<u>19,494,500</u>	<u>19,419,761</u>	<u>(74,739)</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,262,124	9,111,116	8,513,105	598,011
Special	2,190,591	2,415,690	2,217,534	198,156
Vocational	120,940	133,367	116,310	17,057
Other	9,068	10,000	15,569	(5,569)
Support services:				
Pupil	896,198	988,289	996,698	(8,409)
Instructional staff	523,140	576,896	624,270	(47,374)
Board of education	71,834	79,216	60,755	18,461
Administration	1,415,818	1,561,303	1,523,304	37,999
Fiscal	847,785	934,901	678,840	256,061
Operations and maintenance	1,678,154	1,850,596	1,764,036	86,560
Pupil transportation	728,403	803,252	940,488	(137,236)
Central	232,735	256,650	209,272	47,378
Extracurricular activities	463,134	510,725	501,498	9,227
Total expenditures	<u>17,439,924</u>	<u>19,232,001</u>	<u>18,161,679</u>	<u>1,070,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,700,218</u>	<u>262,499</u>	<u>1,258,082</u>	<u>995,583</u>
Other financing sources:				
Refund of prior year expenditures	100,000	100,000	67,016	(32,984)
Sale of capital assets	1,000	1,000	4,525	3,525
Total other financing sources	<u>101,000</u>	<u>101,000</u>	<u>71,541</u>	<u>(29,459)</u>
Net change in fund balance	1,801,218	363,499	1,329,623	966,124
Fund balance at beginning of year	5,880,218	5,880,218	5,880,218	-
Prior year encumbrances appropriated	68,843	68,843	68,843	-
Fund balance at end of year	<u>\$ 7,750,279</u>	<u>\$ 6,312,560</u>	<u>\$ 7,278,684</u>	<u>\$ 966,124</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 543,675	\$ 121,664
Investments in segregated accounts.	390,640	-
Investments in common stock.	18,607	-
Total assets.	952,922	\$ 121,664
Liabilities:		
Accounts payable.	-	\$ 180
Pension and post employment benefits payable	-	544
Intergovernmental payable	-	3,745
Due to students.	-	117,195
Total liabilities	-	\$ 121,664
Net position:		
Held in trust for scholarships	952,922	
Total net position.	\$ 952,922	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 15,969
Loss on fair value of investments	(16,479)
Total additions.	(510)
Deductions:	
Scholarships awarded	22,500
Administrative fees	13,698
Total deductions.	36,198
Change in net position	(36,708)
Net position at beginning of year	989,630
Net position at end of year	\$ 952,922

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District operates under a locally-elected six-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the District's three elementary schools, one middle school and one high school staffed by 110 classified employees and 139 certified full-time teaching personnel who provide services to 1,757 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

JOINTLY GOVERNED ORGANIZATIONS

Pioneer Career and Technology Center (PCTC)

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

Meta Solutions

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

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

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

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Wyandot-Crawford Health Benefit Plan

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

D. Basis of Accounting

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

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

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

Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction occurred (Note 8).

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, See Note 14 for deferred outflows of resources related to the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 14 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

E. Budgets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Cash Equivalents

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

During fiscal year 2016, investments were limited State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2016.

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund (a nonmajor governmental fund) and the classroom facilities fund (a nonmajor governmental fund) individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$27,542, which includes \$4,721 assigned from other District funds.

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

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

G. Inventory

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

H. Capital Assets

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

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

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

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	10 - 40 years
Buildings and building improvements	5 - 40 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	8 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “loans to/from other funds”. These amounts are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2016, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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

M. Prepayments

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

N. Net Position

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

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

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

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

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

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

P. Estimates

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

Q. Interfund Activity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

R. Restricted Assets

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

S. Pensions

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have any extraordinary or special items during fiscal year 2016.

U. Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

B. Deficit Fund Balance

Fund balances at June 30, 2016 included the following individual fund deficit:

<u>Nonmajor fund</u>	<u>Deficit</u>
Improving teacher quality	\$ 4,507

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash in Segregated Accounts

The District has \$12,643 held in an account for employee medical savings. These funds are included below and are reported on the financial statement as "cash in segregated accounts"

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments in Segregated Accounts

At fiscal year-end, \$390,640 was on deposit with an escrow agent for monies held in relation to the W.H. & Ladye F. Moody Scholarship fund. This amount is included in the total amount of deposits reported below and is reported on the financial statements as “investments in segregated accounts”.

C. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$5,170,657. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$2,519,536 of the District’s bank balance of \$5,327,502 was exposed to custodial risk as discussed below, while \$2,807,966 was covered by the FDIC.

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

D. Investments

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 7,333,657	\$ 7,333,657
Common stock	<u>18,607</u>	<u>18,607</u>
Total	<u>\$ 7,352,264</u>	<u>\$ 7,352,264</u>

The District’s investments in common stock is valued using quoted market prices (Level 1 inputs).

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 7,333,657	99.75
Common stock	18,607	0.25
Total	<u>\$ 7,352,264</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,170,657
Investments	7,352,264
Investments in segregated accounts	390,640
Cash in segregated accounts	<u>12,643</u>
Total	<u>\$ 12,926,204</u>
<u>Cash and investments per financial statements</u>	
Governmental activities	\$ 11,851,618
Private-purpose trust fund	952,922
Agency funds	<u>121,664</u>
Total	<u>\$ 12,926,204</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - INTERFUND TRANSACTIONS

A. Loans to/from Other Funds

Interfund loans receivable/payable consisted of the following at June 30, 2016, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds:	
	District managed activities	\$ 17,581
	Title I	<u>10</u>
	Total	<u>\$ 17,591</u>

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. Interfund balances between governmental funds are eliminated on the government-wide statement of net position.

B. Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund statements:

<u>Transfers from:</u>	<u>Transfers to:</u>	<u>Amount</u>
Nonmajor governmental fund:	Nonmajor governmental fund:	
Classroom facilities	Building	\$ 1,254,642
Classroom facilities	Permanent improvement	19,638

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The District closed out the Ohio Facilities Construction Commission project during fiscal year 2016 by transferring the local share balance that was accounted for in the classroom facilities fund to the building and permanent improvement funds.

NOTE 6 - PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$793,039 in the general fund, \$137,956 in the debt service fund (a nonmajor governmental fund), \$17,959 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$48,243 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$990,201 in the general fund, \$158,432 in the debt service fund (a nonmajor governmental fund), \$21,468 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$55,451 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 205,762,380	96.31	\$ 204,673,230	95.93
Public utility personal	<u>7,873,260</u>	<u>3.69</u>	<u>8,673,660</u>	<u>4.07</u>
Total	<u>\$ 213,635,640</u>	<u>100.00</u>	<u>\$ 213,346,890</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$55.50		\$55.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net position follows:

Governmental activities:

Property taxes	\$ 6,289,366
Income taxes	1,126,688
Accounts	10,102
Accrued interest	1,878
Intergovernmental	<u>134,772</u>
Total	<u>\$ 7,562,806</u>

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

NOTE 8 - INCOME TAX

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>07/01/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/16</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 793,364	\$ -	\$ -	\$ 793,364
Total capital assets, not being depreciated	<u>793,364</u>	<u>-</u>	<u>-</u>	<u>793,364</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,637,772	11,403	-	2,649,175
Buildings and building improvements	26,933,850	13,907	-	26,947,757
Furniture, fixtures and equipment	4,014,596	138,852	-	4,153,448
Vehicles	<u>1,311,786</u>	<u>12,314</u>	<u>(31,923)</u>	<u>1,292,177</u>
Total capital assets, being depreciated	<u>34,898,004</u>	<u>176,476</u>	<u>(31,923)</u>	<u>35,042,557</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,486,898)	(91,202)	-	(1,578,100)
Buildings and building improvements	(6,931,695)	(572,181)	-	(7,503,876)
Furniture, fixtures and equipment	(2,834,658)	(131,956)	-	(2,966,614)
Vehicles	<u>(1,093,176)</u>	<u>(41,030)</u>	<u>31,923</u>	<u>(1,102,283)</u>
Total accumulated depreciation	<u>(12,346,427)</u>	<u>(836,369)</u>	<u>31,923</u>	<u>(13,150,873)</u>
Governmental activities capital assets, net	<u>\$ 23,344,941</u>	<u>\$ (659,893)</u>	<u>\$ -</u>	<u>\$ 22,685,048</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 464,800
Special	121,624
Vocational	7,566
Other	673
<u>Support services:</u>	
Pupil	42,045
Instructional staff	36,505
Operation and maintenance	30,350
Pupil transportation	34,028
Central	9,069
Extracurricular	21,074
Food service operations	<u>68,635</u>
Total depreciation expense	<u>\$ 836,369</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - CAPITAL LEASE OBLIGATION

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

Capital assets consisting of equipment have been capitalized in the amount of \$439,724 in the statement of Net Position. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2016 totaled \$43,295 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 49,144
2018	<u>49,144</u>
Total minimum lease payments	98,288
Less: amount representing interest	<u>(4,940)</u>
Total	<u>\$ 93,348</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - LONG-TERM OBLIGATIONS

During fiscal year 2016, the following activity occurred in governmental activities long-term obligations.

Governmental activities:	Balance Outstanding <u>07/01/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/16</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Series 2010A School Improvement Bonds					
Current interest serial bonds	\$ 470,000	\$ -	\$ (230,000)	\$ 240,000	\$ 240,000
Capital appreciation bonds	309,992	-	-	309,992	-
Accreted interest	346,012	120,325	-	466,337	-
Series 2014 Refunding Bonds					
Current interest term bonds	<u>15,315,000</u>	<u>-</u>	<u>(20,000)</u>	<u>15,295,000</u>	<u>10,000</u>
Total general obligation bonds	<u>16,441,004</u>	<u>120,325</u>	<u>(250,000)</u>	<u>16,311,329</u>	<u>250,000</u>
Capital lease obligation	136,643	-	(43,295)	93,348	45,510
Compensated absences	1,415,568	400,981	(310,753)	1,505,796	188,606
Net pension liability	<u>22,186,816</u>	<u>3,417,131</u>	<u>-</u>	<u>25,603,947</u>	<u>-</u>
Total long-term obligations	<u>\$ 40,180,031</u>	<u>\$ 3,938,437</u>	<u>\$ (604,048)</u>	43,514,420	<u>\$ 484,116</u>
				<u>1,021,282</u>	
				<u>\$ 44,535,702</u>	

Series 2010A School Facilities Improvement Bonds - On November 18, 2010, the District issued \$1,499,992 in general obligation bonds, for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund (a nonmajor governmental fund). The bonds were sold at a premium of \$719,721.

The issue is comprised of both current interest serial bonds, par value \$1,190,000, and capital appreciation bonds par value \$309,992. The interest rates on the current interest serial bonds range from 2.00% - 2.50%. The capital appreciation bonds mature on November 1, 2017 (stated interest rate 17.567%), November 1, 2018 (stated interest rate 17.567%), November 1, 2019 (stated interest rate 17.567%), November 1, 2020 (stated interest rate 17.567%) and November 1, 2021 (stated interest rate 17.567%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,380,000. Total accreted interest of \$466,337 for series 2010 A has been included on the statement of net position at June 30, 2016.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year	Current Interest - Series 2010 A			Capital Appreciation - Series 2010 A		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 240,000	\$ 3,000	\$ 243,000	\$ -	\$ -	\$ -
2018	-	-	-	77,538	172,462	250,000
2019	-	-	-	70,764	199,236	270,000
2020	-	-	-	60,907	214,093	275,000
2021	-	-	-	53,338	231,662	285,000
2022	-	-	-	47,445	252,555	300,000
Total	<u>\$ 240,000</u>	<u>\$ 3,000</u>	<u>\$ 243,000</u>	<u>\$ 309,992</u>	<u>\$ 1,070,008</u>	<u>\$ 1,380,000</u>

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future annual debt service requirements, including mandatory sinking fund deposits, to maturity for the Series 2014 BABs:

Fiscal Year	Current Interest - Series 2014		
	Principal	Interest	Total
2017	\$ 10,000	\$ 627,538	\$ 637,538
2018	10,000	627,413	637,413
2019	10,000	627,263	637,263
2020	10,000	627,113	637,113
2021	5,000	626,988	631,988
2022 - 2026	1,415,000	3,026,181	4,441,181
2027 - 2031	2,350,000	2,630,325	4,980,325
2032 - 2036	3,060,000	2,114,513	5,174,513
2037 - 2041	3,785,000	1,352,825	5,137,825
2042 - 2046	4,640,000	478,200	5,118,200
Total	\$ 15,295,000	\$ 12,738,359	\$ 28,033,359

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

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

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

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$4,218,097 and an unvoted debt margin of \$213,347.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - COMPENSATED ABSENCES

A. Compensated Absences

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

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

B. Retirement Incentive

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education Meeting. In fiscal year 2016, four employees received this incentive, a total of \$53,501. At fiscal year-end, a retirement incentive liability did not exist.

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 2,500	\$ 83,941,294
Electronic Data Processing Equipment	500	Full
Automobile Liability	1,000/1,000	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	2,000,000
Employer's Liability	-	3,000,000

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - RISK MANAGEMENT - (Continued)

B. Worker's Compensation

For fiscal year 2016, the District participated in the Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool (Note 2A). The GRRP is a voluntary performance-based program sponsored by OSBA. The program is designed to reward participants that are able to keep their claim costs below a predetermined amount. Employers continue to pay their individual premium; however, they have the opportunity to receive retrospective premium adjustments at the end of each of the three evaluation periods. The firm of Comp Management provides administrative, cost control and actuarial services to the GRRP.

C. Employee Health Benefits

In February 2010, the District joined the Wyandot Crawford Health Benefit Plan (WCHBP), a public entity risk pool currently operating as a common risk management and insurance program. The WCHBP includes seven school districts. The District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the District to WCHBP. The Agreement for formation of the WCHBP provides that the WCHBP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$150,000 for each insured event.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$364,451 for fiscal year 2016. Of this amount, \$42,104 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,092,477 for fiscal year 2016. Of this amount, \$191,265 is reported as pension and postemployment benefits payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate share of the net pension liability	\$ 4,806,422	\$ 20,797,525	\$ 25,603,947
Proportion of the net pension liability	0.08423310%	0.07344310%	
Pension expense	\$ 279,548	\$ 1,412,564	\$ 1,692,112

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 78,036	\$ 925,119	\$ 1,003,155
Changes in proportionate share	-	32,500	32,500
District contributions subsequent to the measurement date	<u>364,451</u>	<u>1,092,477</u>	<u>1,456,928</u>
Total deferred outflows of resources	<u>\$ 442,487</u>	<u>\$ 2,050,096</u>	<u>\$ 2,492,583</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 169,780	\$ 1,456,090	\$ 1,625,870
Changes in proportionate share	<u>65,545</u>	<u>-</u>	<u>65,545</u>
Total deferred inflows of resources	<u>\$ 235,325</u>	<u>\$ 1,456,090</u>	<u>\$ 1,691,415</u>

\$1,456,928 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (82,191)	\$ (320,133)	\$ (402,324)
2018	(82,191)	(320,133)	(402,324)
2019	(82,192)	(320,134)	(402,326)
2020	<u>89,285</u>	<u>461,929</u>	<u>551,214</u>
Total	<u>\$ (157,289)</u>	<u>\$ (498,471)</u>	<u>\$ (655,760)</u>

Actuarial Assumptions - SERS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 6,664,781	\$ 4,806,422	\$ 3,241,531

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 28,194,793	\$ 20,797,525	\$ 13,619,207

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$49,122.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$49,122, \$64,611, and \$48,411, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$75,204, respectively. The full amount has been contributed for fiscal year 2014.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 1,329,623
Net adjustment for revenue accruals	(94,431)
Net adjustment for expenditure accruals	(7,716)
Net adjustment for other sources/uses	(71,541)
Funds budgeted elsewhere	280
Adjustment for encumbrances	230,467
GAAP basis	<u>\$ 1,386,682</u>

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

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to legal proceedings.

**SHELBY CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 17 - CONTINGENCIES - (Continued)

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 18 - SET-ASIDES

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

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	339,333
Current year offsets	<u>(362,287)</u>
Total	<u>\$ (22,954)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

During fiscal year 2012, the District issued \$16,999,992 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$16,999,992 at June 30, 2016.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 18 - SET-ASIDES - (Continued)

A schedule of the restricted assets at June 30, 2016 follows:

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

NOTE 19 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 72,600
Other governmental	<u>121,778</u>
Total	<u>\$ 194,378</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.08423310%	0.08594200%	0.08594200%
District's proportionate share of the net pension liability	\$ 4,806,422	\$ 4,349,476	\$ 5,110,695
District's covered-employee payroll	\$ 2,535,857	\$ 2,497,316	\$ 2,624,725
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	194.71%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.07344310%	0.07333389%	0.07333389%
District's proportionate share of the net pension liability	\$ 20,797,525	\$ 17,837,340	\$ 21,247,723
District's covered-employee payroll	\$ 7,729,721	\$ 7,492,700	\$ 7,872,454
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	269.06%	238.06%	269.90%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 364,451	\$ 334,226	\$ 346,128	\$ 363,262
Contributions in relation to the contractually required contribution	<u>(364,451)</u>	<u>(334,226)</u>	<u>(346,128)</u>	<u>(363,262)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,603,221	\$ 2,535,857	\$ 2,497,316	\$ 2,624,725
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 353,359	\$ 333,279	\$ 348,291	\$ 246,464	\$ 241,538	\$ 266,740
<u>(353,359)</u>	<u>(333,279)</u>	<u>(348,291)</u>	<u>(246,464)</u>	<u>(241,538)</u>	<u>(266,740)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,627,204	\$ 2,651,384	\$ 2,572,312	\$ 2,504,715	\$ 2,459,654	\$ 2,497,566
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,092,477	\$ 1,082,161	\$ 974,051	\$ 1,023,419
Contributions in relation to the contractually required contribution	<u>(1,092,477)</u>	<u>(1,082,161)</u>	<u>(974,051)</u>	<u>(1,023,419)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,803,407	\$ 7,729,721	\$ 7,492,700	\$ 7,872,454
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,063,090	\$ 1,086,276	\$ 1,059,740	\$ 1,403,240	\$ 1,013,377	\$ 997,889
<u>(1,063,090)</u>	<u>(1,086,276)</u>	<u>(1,059,740)</u>	<u>(1,403,240)</u>	<u>(1,013,377)</u>	<u>(997,889)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,177,615	\$ 8,355,969	\$ 8,151,846	\$ 10,794,154	\$ 7,795,208	\$ 7,676,069
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

SUPPLEMENTARY INFORMATION

**SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Child Nutrition Grant Cluster:			
(D) (E) School Breakfast Program	10.553	2016	\$ 140,007
(D) (E) National School Lunch Program	10.555	2016	409,917
(C) (D) National School Lunch Program - Food Donation	10.555	2016	65,813
Total National School Lunch Program			<u>475,730</u>
Total Child Nutrition Grant Cluster			<u>615,737</u>
Total U.S. Department of Agriculture			<u>615,737</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
(G) Title I Grants to Local Educational Agencies	84.010	2015	90,470
(G) Title I Grants to Local Educational Agencies	84.010	2016	449,238
Total Title I Grants to Local Educational Agencies			<u>539,708</u>
(G) Special Education_Grants to States	84.027	2015	75,397
(G) Special Education_Grants to States	84.027	2016	351,544
Total Special Education_Grants to States			<u>426,941</u>
(G) Improving Teacher Quality State Grants	84.367	2015	12,683
(G) Improving Teacher Quality State Grants	84.367	2016	68,870
Total Improving Teacher Quality State Grants			<u>81,553</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395A	2015	954
Total ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act			<u>954</u>
Total U.S. Department of Education			<u>1,049,156</u>
Total Federal Financial Assistance			<u>\$ 1,664,893</u>

Notes to the Schedule of Expenditures of Federal Awards:

- (A) OAKS did not assign pass-through numbers for fiscal year 2016.
- (B) This schedule includes the federal award activity of the Shelby City School District under programs of the federal government for the fiscal year ended June 30, 2016 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Shelby City School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Shelby City School District.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Child Nutrition Grant Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of breakfast and lunches; assumed expenditures were made on a first-in, first-out basis
- (F) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. Shelby City School District has elected not to use the 10% de minimis indirect cost rate
- (G) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2016, the ODE authorized the following transfers:

Program Title	CFDA Number	Grant Year	Transfer Out	Transfer In
Title I Grants to Local Educational Agencies	84.010	2015	\$ 20,031	
Title I Grants to Local Educational Agencies	84.010	2016		\$ 20,031
Special Education_Grants to States	84.027	2015	9,188	
Special Education_Grants to States	84.027	2016		9,188
Improving Teacher Quality State Grants	84.367	2015	1,412	
Improving Teacher Quality State Grants	84.367	2016		1,412
Totals			<u>\$ 30,631</u>	<u>\$ 30,631</u>



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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards***

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Shelby City School District's basic financial statements and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

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

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

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

Board of Education
Shelby City School District

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 17, 2016



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Shelby City School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Shelby City School District's major federal programs for the fiscal year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Shelby City School District's major federal programs.

Management's Responsibility

The Shelby City School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Shelby City School District's compliance for each of the Shelby City School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Shelby City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Education
Shelby City School District

Opinion on Each Major Federal Program

In our opinion, the Shelby City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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



Julian & Grube, Inc.
November 17, 2016

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Title I Grants to Local Educational Agencies (CFDA #84.010) and Special Education_Grants to States (CFDA #84.027)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	No

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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Dave Yost • Auditor of State

SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 17, 2017**