



**Auditor of State  
Betty Montgomery**

**Shelby City School District  
Richland County, Ohio**

**Financial Forecast  
For The Fiscal Year Ending June 30, 2005**

**Local Government Services Section**

Shelby City School District  
Richland County

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**Auditor of State  
Betty Montgomery**

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

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.03, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Shelby City School District, Richland County, Ohio, and issued a report dated March 10, 2005. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2005 of \$3,253,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2005 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

BETTY MONTGOMERY  
Auditor of State

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem  
Chief of Local Government Services

April 7, 2005



**Auditor of State  
Betty Montgomery**

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures, and changes in fund balance of the general fund of the Shelby City School District for the fiscal year ending June 30, 2005. The Shelby City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with the guidelines for presentation of forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of Shelby City School District for the fiscal years ended June 30, 2002, 2003, and 2004 were compiled by us in accordance with the Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

March 10, 2005

SHELBY CITY SCHOOL DISTRICT  
 RICHLAND COUNTY  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE FISCAL YEARS ENDED JUNE 30, 2002 THROUGH 2004 ACTUAL;  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2005 FORECASTED  
 GENERAL FUND

	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Forecasted
<b>Revenues</b>				
General Property Tax (Real Estate)	\$4,274,000	\$4,189,000	\$5,267,000	\$3,525,000
Tangible Personal Property Tax	3,593,000	3,020,000	2,538,000	2,418,000
Unrestricted Grants-in-Aid	6,314,000	6,421,000	6,838,000	6,922,000
Restricted Grants-in-Aid	162,000	360,000	96,000	85,000
Property Tax Allocation	579,000	584,000	560,000	579,000
All Other Revenues	146,000	122,000	204,000	678,000
<i>Total Revenues</i>	<u>15,068,000</u>	<u>14,696,000</u>	<u>15,503,000</u>	<u>14,207,000</u>
<b>Other Financing Sources</b>				
Proceeds from Sale of Notes	0	0	0	1,300,000
Operating Transfers In	0	0	927,000	0
Advances In	271,000	169,000	198,000	0
<i>Total Other Financing Sources</i>	<u>271,000</u>	<u>169,000</u>	<u>1,125,000</u>	<u>1,300,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>15,339,000</u>	<u>14,865,000</u>	<u>16,628,000</u>	<u>15,507,000</u>
<b>Expenditures</b>				
Personal Services	9,458,000	10,028,000	10,291,000	10,266,000
Employees' Retirement/Insurance Benefits	3,345,000	3,325,000	3,844,000	4,580,000
Purchased Services	875,000	931,000	1,185,000	1,167,000
Supplies and Materials	622,000	600,000	590,000	466,000
Capital Outlay	206,000	224,000	465,000	210,000
Debt Service:				
Principal-All (History Only)				
Principal-Notes	0	0	0	1,300,000
Principal-HB 264 Loans	110,000	110,000	105,000	105,000
Interest	65,000	59,000	54,000	76,000
Other Objects	347,000	426,000	279,000	281,000
<i>Total Expenditures</i>	<u>15,028,000</u>	<u>15,703,000</u>	<u>16,813,000</u>	<u>18,451,000</u>
<b>Other Financing Uses</b>				
Operating Transfers Out	352,000	92,000	114,000	309,000
Advances Out	169,000	0	0	261,000
<i>Total Other Financing Uses</i>	<u>521,000</u>	<u>92,000</u>	<u>114,000</u>	<u>570,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>15,549,000</u>	<u>15,795,000</u>	<u>16,927,000</u>	<u>19,021,000</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	(210,000)	(930,000)	(299,000)	(3,514,000)
Cash Balance July 1	2,312,000	2,102,000	1,172,000	873,000
Cash Balance (Deficit) June 30	<u>2,102,000</u>	<u>1,172,000</u>	<u>873,000</u>	<u>(2,641,000)</u>
<b>Encumbrances and Reserves:</b>				
Actual/Estimated Encumbrances June 30	714,000	1,953,000	619,000	612,000
Reserves for:				
Budget	462,000	462,000	462,000	0
Textbooks and Instructional Materials	581,000	326,000	0	0
Capital Improvements	382,000	234,000	0	0
Bus Purchase	0	0	1,000	0
Total Encumbrances and Reserves of Fund Balance	<u>2,139,000</u>	<u>2,975,000</u>	<u>1,082,000</u>	<u>612,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$37,000)</u>	<u>(\$1,803,000)</u>	<u>(\$209,000)</u>	<u>(\$3,253,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies  
 See accountant's report

Shelby City School District  
Richland County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2005

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**Note 1 – The School District**

The Shelby City School District (the School District) is located in Richland County and encompasses all of the City of Shelby. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District operates four elementary schools, one middle school and one high school. The School District is staffed by 154 non-certified and 187 certificated personnel to provide services to 2,242 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Shelby City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of March 10, 2005, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the disadvantaged pupil impact aid fund (DPIA) and general fund supported debt are included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Shelby City School District  
Richland County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2005

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**B. - Fund Accounting**

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**Governmental Funds**

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**Proprietary Funds**

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

**Fiduciary Funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trusts funds, investment trust funds, private-purpose trust funds and agency funds.

**C. - Budgetary Process**

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.

Shelby City School District  
Richland County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2005

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Budget - A budget of estimated cash receipts and disbursements is submitted to the Richland County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

**Note 5 - General Operating Assumptions**

The Shelby City School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

Property taxes consist of real estate, manufactured home, public utility real and personal property and tangible personal property taxes. General property tax revenue includes real estate taxes, manufactured home and public utility property taxes. Tangible personal property tax is applied to property used in business (except for public utilities). Property taxes are collected for and distributed to the school districts in the county by the Richland County Auditor and Treasurer. The School District may request advances from the Richland County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent advances are received prior to June 30, 2005 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.



Shelby City School District  
 Richland County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

State law allows for certain reductions in the form of rollbacks and homestead exemption for real estate taxes. The State reimburses the School District for revenues lost due to these exemptions. The amount of the reimbursement is presented in the account “property tax allocation”.

The property tax revenues for the School District’s general fund are generated from several levies. The levies for the general fund, the year approved, last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	Last Year of Collection	Full Tax Rate (Per \$1,000 of Assessed Valuation)
Inside Ten Mill Limitation	n/a	n/a	\$5.20
Continuing Operating	Prior to 1976	n/a	23.00
Continuing Operating	1979	n/a	3.40
Continuing Operating	1985	n/a	3.00
Continuing Operating	1994	n/a	8.90
Emergency	2001	2006	4.30
Total Tax Rate			\$47.80

The School District also has a levy for permanent improvement totaling \$2.00 per \$1,000 of assessed valuation. The School District’s total tax rate is \$49.80 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property tax revenues as in the year in which the levy was approved. For all voted levies except emergency levies, increases to revenues are restricted to amounts generated from new construction. Emergency levies are intended to generate a set revenue amount annually; the revenue generated by emergency levies is not affected by changes in property valuation. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. The effective residential and agricultural rate is \$26.63 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$33.15 per \$1,000 of assessed valuation for the collection year 2005.

General Property Tax (Real Estate) - The general property tax revenue estimate is based upon actual receipts and information provided by the Richland County Auditor. Based upon these estimates, the School District anticipates receiving \$3,525,000 in real estate and manufactured home tax revenue, a decrease of \$1,742,000 compared to the prior fiscal year. The decrease is due to the School District obtaining a \$1,000,000 tax advance in fiscal year 2004 against real estate taxes intended to finance fiscal year 2005 offset by an increase in tax revenue from new construction and the collection of delinquent taxes.

Tangible Personal Property Tax - Tangible personal property tax revenues are based upon information provided by the Richland County Auditor. The \$120,000 decrease in tangible personal property tax is the result of the State reimbursement for the \$10,000 personal property exemption being phased out at ten percent per year beginning with fiscal year 2005, the phase out of the tangible personal property tax on inventory and a decrease in valuation of tangible personal property.

Shelby City School District  
 Richland County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

**B. - Unrestricted Grants-in-Aid**

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid, disadvantaged pupil impact aid and various categorical aid programs such as special and gifted education and transportation. Other programs, such as parity aid, are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of average daily membership (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation. The per pupil foundation level for fiscal year 2002 was set by State legislature at \$4,490 and \$4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 at \$5,058 and \$5,169 for fiscal year 2005.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005	Variance Increase (Decrease)
Formula Aid	\$5,208,000	\$5,313,000	\$5,307,000	\$5,361,000	\$54,000
Categorical Funding	510,000	523,000	540,000	535,000	(5,000)
Transportation	334,000	371,000	397,000	375,000	(22,000)
Disadvantaged Pupil Impact Aid	10,000	10,000	10,000	10,000	0
Parity Aid	0	0	404,000	570,000	166,000
Foundation Adjustments	182,000	141,000	114,000	0	(114,000)
Total Foundation	<u>6,244,000</u>	<u>6,358,000</u>	<u>6,772,000</u>	<u>6,851,000</u>	<u>79,000</u>
Utility Deregulation	70,000	63,000	66,000	71,000	5,000
Total Unrestricted Grants-in-Aid	<u><u>\$6,314,000</u></u>	<u><u>\$6,421,000</u></u>	<u><u>\$6,838,000</u></u>	<u><u>\$6,922,000</u></u>	<u><u>\$84,000</u></u>

Formula aid is anticipated to increase due to an increase in the per-pupil funding amount. This amount is offset by a decrease in ADM and an increase in the local share of the basic program cost (23 mills times the District's recognized property valuation). Parity aid was classified as restricted revenue in fiscal years 2002 and 2003. Beginning in fiscal year 2004, parity aid was no longer restricted. Parity aid continues its phase in with the percentage of the calculated amount going from 40 percent in fiscal year 2003, 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123<sup>rd</sup> General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are to be made twice a year in February and August.

**C. - Restricted Grants-in-Aid**

Restricted grants-in-aid include an anticipated bus purchase allowance of \$12,000, \$49,000 from the State for career and technical education and \$24,000 of restricted Disadvantaged Pupil Impact Aid.

Shelby City School District  
 Richland County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

**D. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Richland County Auditor, is anticipated to be \$579,000, an increase of \$19,000 from the prior fiscal year. This increase is primarily due to fluctuations in the number of people who qualify for tax relief.

**E. - All Other Revenues**

The following is a comparison of all other revenues for the past three fiscal years and the forecast period.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Variance Increase (Decrease)
Open Enrollment Tuition	\$0	\$0	\$137,000	\$376,000	\$239,000
Other Tuition	3,000	5,000	3,000	12,000	9,000
Extracurricular Transportation	6,000	8,000	2,000	3,000	1,000
Property Tax Abatements	0	0	0	211,000	211,000
Interest	76,000	51,000	13,000	11,000	(2,000)
Student Class Fees	37,000	36,000	22,000	46,000	24,000
Other	13,000	4,000	25,000	8,000	(17,000)
Refund of Prior Year Expenditures	11,000	18,000	2,000	11,000	9,000
<b>Totals</b>	<b>\$146,000</b>	<b>\$122,000</b>	<b>\$204,000</b>	<b>\$678,000</b>	<b>\$474,000</b>

The increase in tuition is due to more students taking advantage of the open enrollment program than in prior years. An increase in student class fees is due to the fact that the collection of fees was better enforced this year than in the prior year.

Property Tax Abatements represent resources received for property tax exemptions granted to promote development. Beginning in fiscal year 2005, the School District will record this revenue to the general fund. In prior years these resources were recorded in the permanent improvement and certain special revenue funds.

Interest is based on historical investment practices and anticipated rates during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation going to the general fund.

**F. – Other Financing Sources**

Proceeds from Sale of Notes – During fiscal year 2005, the School District issued a \$950,000 tax anticipation note and a \$350,000 tax anticipation note. The notes are to be repaid by June 30, 2005. The School District does not anticipate issuing any additional notes during the forecast period.

Shelby City School District  
Richland County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2005

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Transfers-In – In fiscal year 2004, the School District transferred to the general fund \$385,000 from the permanent improvement fund and \$247,000 from certain special revenue funds. The transfers represent revenues received under property tax abatement agreements. The School District believes these resources are unrestricted revenues that should have been recorded in the general fund in past years.

In fiscal year 2004, the School District also transferred the balance of several grant funds to the general fund. The School District is in the process of accumulating information indicating that expenditures were charged to the general fund that should have been charged to the grant funds and does not anticipate having to return any of these resources to the grantor.

**Note 7 – Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period July 1, 2003 to June 30, 2006, and allows for a 3.25 increase in the base salary for fiscal year 2005 as well as step increases from 4 to 4.33 percent in each year of the contract. The contract for classified staff covers the period July 1, 2003 to June 30, 2006. It allows for a 3.5 percent increase in the base salary for fiscal year 2005 as well as a step increase of 2.5 percent in each year of the contract. Administrative salaries are set by the Board of Education.

The increase in certified salaries is offset by the retirement of eight certified staff members, who were replaced by new staff earning lower wages. Classified salaries are forecasted to decrease because two positions were eliminated and two retirees were replaced with new staff earning lower wages.

The School District offers severance pay upon retirement to its certified and classified employees who are eligible to retire under the provisions set by STRS or SERS. Payments to certified employees are equal to one fourth of their unused sick leave but not to exceed a total of 65 days. Payments to classified employees are equal to one fourth of the first 160 days of unused sick leave and one third of unused sick leave over 160 days to the maximum of an accumulation limit of 253 days. Severance costs are anticipated to increase due to the retirement of ten staff members during the forecast period compared with the retirement of eight staff members during fiscal year 2004.

The School District offers a retirement incentive to any certified employee, with at least ten years service to the School District, who gives written notice to the superintendent of his/her intention to retire by March 1 of the year they first become eligible to retire under STRS. The incentive is equal to two days pay for each year of service to the School District, not to exceed forty-five days.

Shelby City School District  
 Richland County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

Presented below is a comparison of salaries and wages for last three fiscal years and the forecast period.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Certified Salaries	\$7,100,000	\$7,451,000	\$7,688,000	\$7,798,000	\$110,000
Classified Salaries	1,522,000	1,665,000	1,895,000	1,731,000	(164,000)
Substitute Salaries	392,000	543,000	344,000	322,000	(22,000)
Supplemental Contracts	213,000	214,000	222,000	221,000	(1,000)
Severance Pay	229,000	151,000	89,000	147,000	58,000
Retirement Incentive	0	0	49,000	38,000	(11,000)
Other Salaries and Wages	2,000	4,000	4,000	9,000	5,000
Totals	<u>\$9,458,000</u>	<u>\$10,028,000</u>	<u>\$10,291,000</u>	<u>\$10,266,000</u>	<u>(\$25,000)</u>

**B. – Employees’ Retirement/Insurance Benefits**

Employees’ retirement and insurance benefits include employer contributions to the State pension systems, health care, Medicare, workers compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employer’s contribution rate of 14 percent of salaries for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from variances with estimates are prorated over the next calendar year. Retirement costs are forecasted to increase based on forecasted salaries and adjustments resulting from variances in estimates prorated over the next calendar year. The School District pays half of the employee retirement contribution for all employees and an additional half of a percent of the employee contribution for certified employees with more than fifteen years of service.

Health care, dental, and vision benefits premiums are fixed by the Board of Education based on recommendations from their third party administrator and are paid into the School District’s self-insurance internal service fund. Health care premiums are based on the estimated claims and administrative charges of the School District’s self-insured health care plan. Effective January 15, 2005, the Board will pay 90 and 95 percent of the monthly premium for certified and classified employees, respectively, and only a coordinated care plan is available to all employees. Prior to January 15, 2005, the Board paid, depending on the health care plan select by the employee, either 90 percent for certified staff and 95 percent for classified staff for those that selected the traditional plan and 95 percent for certified staff and 97.5 percent for classified staff that selected the coordinated care plan. The employees pay the balance of the monthly premium. The health care premiums for fiscal year 2005 have increased approximately 30 percent from the prior fiscal year.

Life insurance premiums for fiscal year 2005 were \$19 per month for \$100,000 of coverage for administrators and \$7.60 per month for \$40,000 of coverage for all other employees. This is a slight decrease from \$20 for administrators and \$8 for all other employees in fiscal year 2004.

Workers’ compensation premiums are based on the School District’s assigned rate and the salaries and wages paid in the previous calendar year. A large increase is forecasted due to the School District paying the fiscal year 2004 workers’ compensation premium during fiscal year 2005, along with an increase in the assigned rate and an increase in the 2004 calendar year salaries and wages. The increase is partially offset by a 20 percent rebate. Workers’ compensation premiums reflect rebates of 75 percent for fiscal

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Workers' compensation premiums are based on the School District's assigned rate and the salaries and wages paid in the previous calendar year. A large increase is forecasted due to the School District paying the fiscal year 2004 workers' compensation premium during fiscal year 2005, along with an increase in the assigned rate and an increase in the 2004 calendar year salaries and wages. The increase is partially offset by a 20 percent rebate. Workers' compensation premiums reflect rebates of 75 percent for fiscal year 2002, 50 percent for fiscal year 2003 and 20 percent for fiscal year 2004.

The increase in unemployment is due to the termination of two classified employees.

Presented below are the expenditures for employees' retirement/insurance benefits for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Retirement Contributions	\$1,797,000	\$1,750,000	\$1,935,000	\$2,058,000	\$123,000
Health Care/Life Insurance	1,447,000	1,459,000	1,803,000	2,215,000	412,000
Workers' Compensation	14,000	20,000	0	192,000	192,000
Medicare	82,000	88,000	106,000	97,000	(9,000)
Unemployment	5,000	8,000	0	18,000	18,000
Totals	<u>\$3,345,000</u>	<u>\$3,325,000</u>	<u>\$3,844,000</u>	<u>\$4,580,000</u>	<u>\$736,000</u>

**C. - Purchased Services**

Presented below are the expenditures for purchased services for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Professional and Technical Services	\$268,000	\$358,000	\$453,000	\$359,000	(\$94,000)
Property Services	84,000	109,000	127,000	122,000	(5,000)
Travel and Meeting Expenses	49,000	57,000	36,000	47,000	11,000
Communication Costs	38,000	25,000	31,000	31,000	0
Utility Services	257,000	285,000	316,000	303,000	(13,000)
Tuition Payments	177,000	96,000	221,000	304,000	83,000
Pupil Transportation	2,000	1,000	1,000	1,000	0
Totals	<u>\$875,000</u>	<u>\$931,000</u>	<u>\$1,185,000</u>	<u>\$1,167,000</u>	<u>(\$18,000)</u>

The School District is trying to keep expenditures at a minimum. The decrease in professional and technical services has been offset by the increases in expenditures for tuition which includes both open enrollment and community school tuition.

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**D. - Supplies and Materials**

Presented below are the expenditures for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
General Supplies	\$250,000	\$296,000	\$303,000	\$151,000	(\$152,000)
Textbooks	130,000	29,000	27,000	77,000	50,000
Library Books	18,000	21,000	16,000	10,000	(6,000)
Periodical, Newspaper, Film and Filmstrips	5,000	6,000	4,000	3,000	(1,000)
Food and Related Supplies and Materials	2,000	3,000	4,000	2,000	(2,000)
Supplies and Materials for Repairs	143,000	168,000	137,000	111,000	(26,000)
Supplies and Materials for Operation	74,000	77,000	99,000	112,000	13,000
Totals	<u>\$622,000</u>	<u>\$600,000</u>	<u>\$590,000</u>	<u>\$466,000</u>	<u>(\$124,000)</u>

In order to cut costs, the School District has limited general supply purchases to what is absolutely necessary for the current year. Textbooks increased with the purchase of new science textbooks for the middle school and high school. Supplies and materials for operation increased due to gas prices for the buses.

**E. - Capital Outlay**

Property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these capital assets as the purpose of the financial statements is to report the expenditure of resources, not costs.

In fiscal year 2004, the School District purchased various pieces of equipment to update the School District's computer technology. In fiscal year 2005, the School District will purchase a handicapped bus and will make only necessary purchases as part of the cost-cutting procedures. The School District has a permanent improvement fund that generates approximately \$330,000, annually. The School District uses this fund to make most capital expenditures.

**F. - Debt Service**

General fund supported debt consists of a \$1,600,000, HB 264 (energy conservation) loan, a \$950,000 tax anticipation note and a \$350,000 tax anticipation note. The total principal and interest that will be paid in fiscal year 2005 is as follows:

	Principal	Interest	Total
HB264 Loan	\$105,000	\$48,000	\$153,000
2004 Tax Anticipation Note	950,000	23,000	973,000
2005 Tax Anticipation Note	350,000	5,000	355,000
Totals	<u>\$1,405,000</u>	<u>\$76,000</u>	<u>\$1,481,000</u>

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**G. - Other Objects**

Other object expenditures consist of dues and fees. The \$2,000 increase from fiscal year 2004 is due to an increase in membership fees and audit costs.

**H. - Operating Transfers and Advances Out**

For fiscal year 2005, \$98,000 has been transferred from the general fund to the other special revenue funds. The School District anticipates transferring \$211,000 from the general fund to the employee benefits self-insurance fund to alleviate the anticipated deficit in the fund. \$261,000 in advances out is anticipated for fiscal year 2005. The following is a schedule of anticipated transfers and advances for fiscal year 2005:

Fund	Transfers Out	Advances Out
Other Grants	\$1,000	\$0
Student Activities	1,000	0
Title VI-B	96,000	0
Permenant Improvement	0	10,000
Food Service	0	50,000
Uniform School Supplies	0	2,000
Principal Fund	0	2,000
Self Insurance	211,000	0
OneNet	0	52,000
Summer Intervention	0	90,000
Miscellaneous State Grants	0	55,000
Totals	\$309,000	\$261,000

**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for purchased services, supplies and materials, capital outlay and other objects for fiscal year ended June 30, 2004 were \$619,000 and are forecasted at \$612,000 for June 30, 2005.



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**Note 9 - Reservations of Fund Balance**

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

**A. - Budget Reserve**

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish and appropriate money for budget stabilization. The monies on hand in the School District's budget reserve may, at the discretion of the Board, be returned to the School District's general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The School District anticipates using the existing budget reserve to offset the deficit for fiscal year 2005.

**B. - Textbooks and Instructional Materials**

The set aside requirement for fiscal year 2005 is \$309,000. The School District anticipates \$329,000 in qualifying disbursements (various supply and capital expenditures) during the current fiscal year and there was an excess of qualified expenditures of \$28,000 from the prior fiscal year; therefore, no reserve for textbooks and instructional materials is forecasted.

**C. - Capital Acquisition and Improvements**

The set aside amount for fiscal year 2005 is \$309,000. The School District will have \$7,000 in qualifying disbursements during the current fiscal year and \$325,000 in an offset for the permanent improvement levy; therefore, no reserve for capital acquisition is forecasted.

**D. - Bus Purchases**

At June 30, 2004, the School District had \$1,000 in unspent bus monies. The School District anticipates receiving \$12,000 in a bus purchase allowance during fiscal year 2005. The School District plans to purchase one bus during the current fiscal year; therefore no reserve for bus purchases is forecasted.

**E. - Disadvantaged Pupil Impact Aid (DPIA)**

At June 30, 2004 the School District had no unspent DPIA monies. The School District is forecasted to receive \$35,000 in DPIA monies during fiscal year 2005. The School District will spend \$35,000 in DPIA money during the current fiscal year. Therefore, there is no reserve included for DPIA.

**Note 10 - Levies**

The School District has placed a one percent income tax on the May 3, 2005 ballot. If passed, the tax will generate approximately \$2,000,000 in each fiscal year in which there is a full year of collection. In the past ten years, the School District has placed several levies on the ballot. The type of levy, millage amount, term and election results are as follows:

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Date	Type	Amount	Term	Election Results
February 1994	Operating	8.9 mills	Continuing	Passed
March 1996	Permanent Improvement	2.0 mills	5 Years	Passed
May 1997	Emergency	\$950,000	5 Years	Passed
November 2000	Permanent Improvement	2.0 mills	Continuing	Passed
May 2001	Emergency	\$950,000	5 Years	Passed
May 2003	Construction Bond	\$32,500,000	28 Years	Failed
November 2003	Construction Bond	\$21,625,000	28 Years	Failed

**Note 11 - Pending Litigation**

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

**Note 12 – Employee Benefits Self-Insurance Fund**

The School District provides medical/surgical, vision and dental benefits through a self-insured program accounted for in an internal service fund. Prior to January, 2005, the School District’s third party administrator was Weyco, Inc. Weyco, Inc. will process runoff claims for the months of January through March, 2005. The School District does not have any cash reserves deposited with Weyco, Inc. Therefore, any runoff claims will be paid by the School District.

Effective January, 2005, the School District changed third party administrator for its self-insured program. Medical Mutual Services, the third party administrator, processes claims and the School District pays the claims. All funds make monthly payments to the self-insurance fund based on the number of employees and the type of coverage provided to each employee. Monthly premiums per person for single and family participation in the program are recommended by the third party administrator. The fund purchases stop loss coverage for claims in excess of \$75,000 per person up to \$1,000,000 per person and for aggregate claims in excess of \$1,497,650 up to \$2,497,650.

The School District anticipates transferring \$211,000 from the general fund to the employee benefits self-insurance fund to alleviate the anticipated deficit in the fund. Medical Mutual Services will re-evaluate the monthly premiums per person for single and family participation in the program after one year of being the third party administrator for the School District. The monthly rates for single and family coverage will be adjusted to ensure adequate resources to pay claims and administrative expenses.

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**Note 13 - State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.



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Betty Montgomery**

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**SHELBY CITY SCHOOL DISTRICT**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 7, 2005**