



Mary Taylor, CPA
Auditor of State

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

**Financial Forecast
For the Fiscal Year Ending June 30, 2007**

Local Government Services Section

Shelby City School District
Richland County

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Financial Planning and Supervision Commission
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

and

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

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, 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 April 3, 2007. 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 surplus for the fiscal year ending June 30, 2007 of \$371,000.

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 2008 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. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2007.

MARY TAYLOR, CPA
Auditor of State

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

Peter R. Sorem
Chief of Local Government Services

May 10, 2007

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Mary Taylor, CPA

Auditor of State

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, 2007. 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 guidelines for presentation of a 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, 2004, 2005 and 2006 were compiled by us in accordance with the Statements 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 3, 2007

SHELBY CITY SCHOOL DISTRICT
 RICHLAND COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEARS ENDED JUNE 30, 2004 THROUGH 2006 ACTUAL;
 FOR THE FISCAL YEAR ENDING JUNE 30, 2007 FORECASTED
 GENERAL FUND

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Forecasted
Revenues				
General Property Taxes	\$5,266,000	\$3,983,000	\$4,771,000	\$4,688,000
Tangible Personal Property Taxes	2,481,000	1,916,000	1,985,000	1,463,000
Income Tax	0	0	157,000	1,543,000
Unrestricted Grants-in-Aid	6,772,000	7,054,000	7,448,000	7,934,000
Restricted Grants-in-Aid	96,000	102,000	84,000	88,000
Property Tax Allocation	683,000	723,000	758,000	1,083,000
All Other Revenues	207,000	680,000	721,000	801,000
<i>Total Revenues</i>	<u>15,505,000</u>	<u>14,458,000</u>	<u>15,924,000</u>	<u>17,600,000</u>
Other Financing Sources				
Proceeds from Sale of Notes	0	1,992,000	1,000,000	0
Solvency Assistance Advance	0	3,253,000	0	0
Operating Transfers In	927,000	159,000	0	0
Advances In	196,000	0	340,000	275,000
<i>Total Other Financing Sources</i>	<u>1,123,000</u>	<u>5,404,000</u>	<u>1,340,000</u>	<u>275,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>16,628,000</u>	<u>19,862,000</u>	<u>17,264,000</u>	<u>17,875,000</u>
Expenditures				
Personal Services	10,291,000	10,248,000	9,240,000	9,217,000
Employees' Retirement/Insurance Benefits	3,844,000	4,415,000	4,294,000	4,183,000
Purchased Services	1,185,000	1,126,000	1,441,000	1,573,000
Supplies and Materials	590,000	421,000	226,000	313,000
Capital Outlay	465,000	151,000	3,000	62,000
Debt Service:				
Principal-Notes	0	1,992,000	0	170,000
Principal-Solvency Assistance Advance	0	0	1,627,000	1,706,000
Principal-Energy Conservation Bond	105,000	105,000	105,000	105,000
Interest	54,000	82,000	79,000	77,000
Other Objects	279,000	288,000	293,000	466,000
<i>Total Expenditures</i>	<u>16,813,000</u>	<u>18,828,000</u>	<u>17,308,000</u>	<u>17,872,000</u>
Other Financing Uses				
Operating Transfers Out	114,000	266,000	0	0
Advances Out	0	537,000	275,000	0
<i>Total Other Financing Uses</i>	<u>114,000</u>	<u>803,000</u>	<u>275,000</u>	<u>0</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>16,927,000</u>	<u>19,631,000</u>	<u>17,583,000</u>	<u>17,872,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(299,000)	231,000	(319,000)	3,000
Cash Balance July 1	1,172,000	873,000	1,104,000	785,000
Cash Balance June 30	873,000	1,104,000	785,000	788,000
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	619,000	483,000	266,000	399,000
Reserves for:				
Budget	462,000	0	0	0
Bus Purchase	1,000	1,000	14,000	18,000
Total Encumbrances and Reserves of Fund Balance	<u>1,082,000</u>	<u>484,000</u>	<u>280,000</u>	<u>417,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$209,000)</u>	<u>\$620,000</u>	<u>\$505,000</u>	<u>\$371,000</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, 2007

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 145 non-certified and 191 certificated School District-wide personnel to provide services to 2,251 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 April 3, 2007, 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 poverty based assistance fund, disadvantaged pupil impact aid (DPIA) fund 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, 2007

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 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 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 account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

Proprietary Funds

Enterprise Funds - Enterprise funds 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

Shelby City School District
Richland County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

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 are applied to real property, public utility real and personal property, manufactured homes and tangible personal property used in businesses which are located within the School District. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. 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.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2006 (the collection year) for real and public utility property taxes represents collections of 2005 taxes (the tax year). Property tax

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

payments received during calendar year 2006 for tangible personal property (other than public utility property) are for calendar year 2006 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "property tax allocation". Beginning in tax year 2005, collection year 2006, the State of Ohio eliminated the ten percent rollback on commercial and industrial real property. The change increased real property taxes collected against commercial and industrial real property and decreased property tax allocation revenue.

The forecast excludes the receipt of any advances against fiscal year 2008 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 fund balance may be increased to the extent advances are received prior to June 30, 2006, 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 2007. In fiscal year 2004, the School District received an advance of \$1,000,000 against fiscal year 2005 general property taxes.

The property tax revenues for the 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 Calendar 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	2007	3.90
Total Tax Rate			<u>\$47.40</u>

The School District also has a levy for permanent improvements totaling \$2.00 per \$1,000 of assessed valuation. The School District's total property tax rate is \$49.40 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 real property tax revenues on carryover property as in the prior year. For all voted levies except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the General Fund, the effective residential and agricultural real property tax rate is \$23.92 per

Shelby City School District
Richland County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

\$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$30.72 per \$1,000 of assessed valuation for collection year 2007.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and phase out the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represent gross property tax revenue and are based upon information provided by the Richland County Auditor. The School District anticipates a decrease of \$83,000 due to a decrease in the collection of delinquent taxes.

Tangible Personal Property Tax – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on business inventory, was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

Beginning in 2006, House Bill 66 will phase out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in calendar year 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the last year of collections before the phase out period, will lose approximately \$2,500,000 when the tangible personal property tax is completely phased out in 2009. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax revenues include actual October 2006 and the estimated June 2007 personal property tax settlements. The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

B. - Income Tax

On May 3, 2005, the voters approved a one percent income tax that became effective on January 1, 2006, which is estimated to generate \$2,000,000 annually. The tax is levied on the income of the residents of the Shelby City School District. The forecasted amount of \$1,543,000 for fiscal year 2007 is based on the

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

Ohio Department of Taxation's timeline for receiving school district income tax payments, the estimated percentages for collections per quarter and the amount estimated for fiscal year 2007 by the State of Ohio Tax Commissioner.

C. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid represent State Foundation payments. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, and excess cost supplement which are provided to address certain policy issues or correct flaws in formula aid 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 pupil enrollment (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 regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level is set by the State Legislature. Historically, the per pupil amount has increased 2.2 percent since 2004. The per pupil foundation level for fiscal years 2004 through 2007 is as follows:

Fiscal Year	Per Pupil Foundation Level
2004	\$5,058
2005	5,169
2006	5,283
2007	5,403

The anticipated unrestricted grants-in-aid for fiscal year 2007 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the March school foundation statement for fiscal year 2007 and the amounts for the last three fiscal years are as follows:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance Increase (Decrease)
Formula Aid	\$5,307,000	\$5,398,000	\$5,595,000	\$5,954,000	\$359,000
Categorical Funding	541,000	537,000	624,000	679,000	55,000
Transportation	396,000	404,000	417,000	424,000	7,000
Disadvantaged Pupil Impact Aid	10,000	10,000	0	0	0
Parity Aid	404,000	568,000	680,000	800,000	120,000
Excess Cost Supplement	0	33,000	63,000	77,000	14,000
Foundation Adjustments	114,000	104,000	69,000	0	(69,000)
Total Unrestricted Grants-in-Aid	\$6,772,000	\$7,054,000	\$7,448,000	\$7,934,000	\$486,000

Shelby City School District
Richland County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Formula aid is anticipated to increase from the prior fiscal year due to an increase in ADM of 46 and an increase in the base cost of per-pupil funding offset by the reduction of the cost of doing business factors. The add-on building blocks added \$40 per pupil in fiscal year 2006 and \$48 per pupil in fiscal year 2007. The cost of doing business factor was reduced by one-third in fiscal year 2006 and by another one-third in fiscal year 2007. Categorical funding increased due to increases in special education. Parity aid continues its phase in with the percentage of the distribution going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and 100 percent on fiscal year 2006.

Other Adjustments represent the difference between the final settlement and a recalculation of the prior year's SF3 which takes into account corrections for ADM, open enrollment, community school adjustments, and other items.

D. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance/DPIA monies. For fiscal year 2007, the School District anticipates \$14,000 in bus purchase allowance, \$39,000 in career tech monies and \$35,000 in Poverty Based Assistance monies which replaced the DPIA program.

E. - 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. Beginning in 2006, the State eliminated the ten percent rollback on commercial and industrial real property and the corresponding reimbursement to local governments.

The State exempts the first \$10,000 in taxable value of tangible personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State was phasing out the reimbursement by 10 percent each year. Under House Bill 66, the phase-out period has been accelerated. The last reimbursement for this exemption will be in October 2008.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd 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 made twice a year in February and August. For fiscal year 2007, the School District anticipates \$36,000 in public utility reimbursements based on information provided by the Ohio Department of Taxation.

Beginning in fiscal year 2006, the State will reimburse the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by House Bill 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

are implemented. For fiscal year 2007, the School District anticipates receiving \$495,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance
Homestead and Rollback	\$561,000	\$600,000	\$563,000	\$525,000	(\$38,000)
Tangible Personal Property Exempt	57,000	52,000	43,000	27,000	(\$16,000)
Utility Deregulation	65,000	71,000	84,000	36,000	(48,000)
Tangible Personal Property Loss Reimbursement	0	0	68,000	495,000	427,000
Totals	\$683,000	\$723,000	\$758,000	\$1,083,000	\$325,000

F. - All Other Revenues

All other revenues include open enrollment tuition, transportation, interest on investments, rentals student class fess, abatements, other revenue, and the refund of prior year expenditures.

Open enrollment tuition revenue is expected to decrease from the prior fiscal year due to fewer students from other districts enrolling at Shelby City School District.

Interest is based on historical investment practices, anticipated rates and cash balances 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 being to the general fund. The increase in interest is due to the School District having more cash to invest and higher interest rates.

Rental revenue is expected to increase based the rental agreements for the used Russell School Community Center and the Ohio Heartland Community Action Commission.

Student class fees increased in fiscal year 2005 due to the fact that the collection of fees was better enforced. In fiscal year 2006, the School District implemented an athletic transportation fee for students participating in sports. However, all other student class fees were receipted in Uniform School Supplies instead of the general fund in fiscal year 2006 which caused these fees to decrease. Fiscal year 2007 represents only the athletic transportation fee.

Abatement revenue is received in lieu of property taxes on several properties granted abatements by the City and County.

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

All other revenues consist of the following:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance Increase (Decrease)
Open Enrollment Tuition	\$142,000	\$399,000	\$393,000	\$350,000	(\$43,000)
Extracurricular Transportation	3,000	6,000	6,000	12,000	6,000
Interest	13,000	13,000	70,000	135,000	65,000
Rentals	0	0	0	46,000	46,000
Student Class Fees	22,000	56,000	7,000	11,000	4,000
Abatements	0	174,000	208,000	208,000	0
Other	25,000	22,000	8,000	34,000	26,000
Refund of Prior Year Expenditures	2,000	10,000	29,000	5,000	(24,000)
Totals	\$207,000	\$680,000	\$721,000	\$801,000	\$80,000

G. – Other Financing Sources

Proceeds from Sale of Notes – During fiscal year 2006, the School District issued \$1,000,000 in income tax anticipation notes at 4.35 percent. The notes are to be repaid over a five year period, ending December 1, 2010. The School District does not anticipate issuing any additional notes during the forecast period.

During fiscal year 2005, the School District issued three revenue anticipation notes issued during the fiscal year. The revenue anticipation notes were a \$950,000 note issued on October 1, 2004, a \$350,000 note issued on January 21, 2005, and a \$692,000 note issued on April 7, 2005. All three notes were paid by fiscal year-end.

During fiscal year 2005, the School District received a Solvency Assistance Fund Advance in the amount of \$3,253,000 from the State. The State solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance is repaid over two years from State foundation revenues.

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 gathered information indicating that expenditures were charged to the general fund that should have been charged to the grant funds.

Advances In – During fiscal year 2006, advances were made for a total of \$275,000 to other School District funds. For fiscal year 2007, those advances are expected to be repaid.

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

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. Administrative salaries are set by the Board of Education. General fund staffing levels increased from 204 in fiscal year 2006 to 212 in fiscal year 2007.

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, 2006 to June 30, 2009, and allows for no increase in the base salary for fiscal year 2007, a 1.95 percent increase for fiscal year 2008 and a 2 percent increase for fiscal year 2009 as well as step increases ranging from 4 to 4.33 percent in each year of the contract. The increase was offset by the replacement of higher paid teachers who retired with lower paid staff.

Classified salaries are based on a negotiated contract which includes base and step increases. The contract covers the period July 1, 2006 to June 30, 2009. It allows for no increase in the base salary for fiscal year 2007, a 1.95 percent increase for fiscal year 2008 and a 2 percent increase for fiscal year 2009 as well as a step increase of 2.5 percent in each year of the contract. The increase was offset by the replacement of higher paid classified staff with lower paid classified staff.

In fiscal year 2006, the contracts called for increases to the base salaries; however, all employees of the School District agreed to a base salary wage freeze for fiscal year 2006.

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 payment of 66 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 payment of 260 days. Severance costs are anticipated to decrease due to the retirement of less staff members during the forecast period compared with fiscal year 2006.

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 he or she first becomes 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.

Presented below is a comparison of salaries and wages for fiscal year 2004, 2005 and 2006 and the forecast period.

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Certified Salaries	\$7,688,000	\$7,770,000	\$6,987,000	\$7,004,000	\$17,000
Classified Salaries	1,895,000	1,723,000	1,562,000	1,532,000	(30,000)
Substitute Salaries	344,000	342,000	269,000	303,000	34,000
Supplemental Contracts	222,000	217,000	198,000	218,000	20,000
Severance Pay	89,000	152,000	193,000	124,000	(69,000)
Retirement Incentive	49,000	38,000	24,000	24,000	0
Other Salaries and Wages	4,000	6,000	7,000	12,000	5,000
Totals	\$10,291,000	\$10,248,000	\$9,240,000	\$9,217,000	(\$23,000)

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

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 employers’ 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 over estimates are prorated over the next calendar year. Retirement costs are forecasted to decrease based on forecasted salaries and adjustments resulting from over/under 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, vision and life insurance payments made to the School District’s self insurance fund are fixed on a fiscal year basis. The monthly payments for health insurance are as follows:

Coverage:	Certified		Classified	
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2006	2007	2006	2007
Family	\$962.71	\$962.71	\$1,016.20	\$1,016.20
Single	385.09	385.09	406.49	406.49

Health care costs are based on the monthly payments and administrative charges for the School District’s self-insured health care program. The self-insured health care program includes medical/surgical, vision and dental care. There was no change in the monthly payment amount but there was a shift in the number of employees from family coverage to single coverage.

Life insurance premiums for fiscal year 2007 were \$20 per month for \$100,000 of coverage for administrators and all other employees.

Workers’ compensation is based on the School District’s assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior years. In 2004 and 2005, the State Workers’ Compensation System granted all local government employers a premium reduction of 20 percent.

Presented below is a comparison of fiscal years 2004, 2005, 2006 and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Employer's Retirement	\$1,935,000	\$2,083,000	\$1,925,000	\$1,863,000	(\$62,000)
Health Care/Life Insurance	1,803,000	2,022,000	2,084,000	2,084,000	0
Workers' Compensation	0	192,000	140,000	118,000	(22,000)
Medicare	106,000	105,000	95,000	106,000	11,000
Unemployment	0	13,000	50,000	12,000	(38,000)
Totals	<u>\$3,844,000</u>	<u>\$4,415,000</u>	<u>\$4,294,000</u>	<u>\$4,183,000</u>	<u>(\$111,000)</u>

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

C. - Purchased Services

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Professional and Technical Services	\$453,000	\$326,000	\$505,000	\$669,000	\$164,000
Property Services	127,000	120,000	104,000	102,000	(2,000)
Travel and Meeting Expenses	36,000	11,000	8,000	17,000	9,000
Communication Costs	31,000	18,000	26,000	26,000	0
Utility Services	316,000	331,000	386,000	367,000	(19,000)
Tuition Payments	221,000	319,000	411,000	392,000	(19,000)
Pupil Transportation	1,000	1,000	1,000	0	(1,000)
Totals	<u>\$1,185,000</u>	<u>\$1,126,000</u>	<u>\$1,441,000</u>	<u>\$1,573,000</u>	<u>\$132,000</u>

Professional and technical services include legal fees and instructional services which are forecast to increase due to the contract negotiations for classified and certificated employees and external assistance for programs that were once provided in house. Utility services are expected to decrease due to a mild winter and the School District taking advantage of lower gas costs. Tuition payments are decreasing due to fewer students attending classes in other districts.

D. - Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
General Supplies	\$303,000	\$121,000	\$44,000	\$74,000	\$30,000
Textbooks	27,000	78,000	0	0	0
Library Books	16,000	14,000	0	0	0
Periodical, Newspaper, Film and Filmstrips	4,000	1,000	0	0	0
Food and Related Supplies and Materials	4,000	1,000	0	0	0
Supplies and Materials for Repairs	137,000	107,000	63,000	124,000	61,000
Supplies and Materials for Operation	99,000	99,000	119,000	115,000	(4,000)
Totals	<u>\$590,000</u>	<u>\$421,000</u>	<u>\$226,000</u>	<u>\$313,000</u>	<u>\$87,000</u>

The School District operated fiscal year 2006 with minimum supplies due to its financial condition. In fiscal year 2007, necessity required the School District to bring supplies back up to a proper level. No textbooks or library books are being purchased during fiscal year 2007.

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

E. - Capital Outlay

The costs of property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. During fiscal year 2005, the School District purchased a school bus equipped to transport handicapped students. In fiscal year 2006, the School District eliminated virtually all capital expenditures from the general fund. The School District has a permanent improvement fund that generates approximately \$311,000 annually. The School District uses this fund to make most major capital expenditures. In fiscal year 2007, the School District purchased a used replacement bus for \$10,000 and had an emergency boiler replacement resulting in an expenditure of \$20,000. These two items coupled with minor equipment purchases has increased the expenditures for capital outlay.

F. – Debt Service

The outstanding balances and fiscal year 2007 principal and interest payments for general fund supported debt consists of the following:

Type	Maturity Date	Balance at 6/30/2006	Fiscal Year 2007 Principal Payment	Fiscal Year 2007 Interest Payment
Solvency Assistance Advance	June 30, 2007	\$1,627,000	\$1,627,000	\$0
State of Ohio Bankruptcy Loan	June 30, 2009	235,781	79,000	0
Income Tax Anticipation Notes	December 1, 2010	1,000,000	170,000	40,000
Energy Conservation Bond	June 15, 2013	735,000	105,000	37,000
Total		<u>\$3,597,781</u>	<u>\$1,981,000</u>	<u>\$77,000</u>

During fiscal year 2005, the School District received Solvency Assistance Fund Advances from the State totaling \$3,253,000. The State solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance is repaid over two years from State foundation revenues.

During fiscal year 2002, the School District was required to pay back tax proceeds received from the State of Ohio on behalf of a local business that filed for Chapter Eleven receivership. The interest free payments began in fiscal year 2007 and will be continue for a three year period. The payments are deducted from State foundation revenues.

During fiscal year 2006, the School District issued \$1,000,000 in income tax anticipation notes at 4.35 percent. The notes are to be repaid over a five year period, beginning December 1, 2006 and ending December 1, 2010.

During fiscal year 1998, the School District issued \$1,600,000 in energy conversation notes at 5.10 percent. These notes are being repaid with property taxes over a fifteen year period.

G. - Other Objects

Other object expenditures consist of dues and fees. Other object expenditures are forecasted in the amount of \$466,000. The \$173,000 increase from fiscal year 2006 is due to an increase in County Board of Education deductions offset with decreases in county auditor fees and audit examination fees.

Shelby City School District
Richland County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

H. - Operating Transfers and Advances Out

For fiscal year 2007, no transfers or advances are anticipated. The School District advanced out \$275,000 for fiscal year 2006 to supplement the food service, title I, drug free schools, title II-A and title II-D special revenue funds and the self insurance internal service fund. In fiscal year 2005, the general fund advanced \$340,000 to other funds to be repaid in fiscal year 2006. \$196,000 was also advanced out in fiscal year 2005 to repay other funds that had loaned money to the general fund in previous years.

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 the fiscal year ended June 30, 2006 were \$266,000 and are forecasted at \$399,000 for June 30, 2007 due to additional outstanding obligations in purchased services.

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 year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Beginning in fiscal year 2006, HB 66 allows school districts in fiscal emergency to set aside less than the annual required set aside amount or to set aside nothing for textbook and instructional materials and capital and maintenance. The Board of Education anticipates passing a resolution to set aside no current year revenues in the textbook and instructional materials and the capital and maintenance set asides and anticipates no reserve for these set asides.

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 utilized their budget reserve in fiscal year 2004.

B. - Bus Purchases

At June 30, 2006, the School District had \$14,000 in unspent bus monies. The School District anticipates receiving \$14,000 in a bus purchase allowance during fiscal year 2007. The School District purchased a replacement bus for \$10,000 during the current fiscal year leaving a reserve of \$18,000.

Shelby City School District
 Richland County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2007

C. – Poverty Based Assistance/Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2006, the School District had no unspent DPIA/Poverty Based Assistance monies. The School District anticipates receiving \$35,000 in restricted Poverty Based Assistance monies during fiscal year 2007 and having \$35,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

Note 10 - Levies

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:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
March 1, 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
May 2005	Income Tax	1 percent	Continuing	Passed
May 2007	Emergency	\$950,000	5 Years	N/A

Note 11 - Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 12 – Employee Benefits Self-Insurance Fund

The School District provides medical/surgical, vision and dental benefits through a self-insurance program. The School District maintains an internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator reviews all claims which are then paid by the School District. The School District pays a monthly premium for each employee into the internal service fund. The premium is paid by the fund that pays the salary for the employee and differs for single and family benefits. Monthly premiums are recommended by the third party administrator and approved by the Board of Education. The fund purchases annual stop loss coverage for claims in excess of \$75,000 per person up to \$1,000,000 per person and for aggregate annual claims in excess of \$1,497,650 up to \$2,497,650. The School District anticipates the costs of claims to remain consistent throughout the fiscal year. The School District anticipates the premiums during fiscal year 2007 to be sufficient to cover the claims, administrative costs and repayment of the advance from the general fund.

Shelby City School District
Richland County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Note 13 – Financial Planning and Supervision Commission

On April 7, 2005, the School District was declared to be in a state of “Fiscal Emergency” by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District’s declining financial condition. In accordance with the law, a five member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, State Director of Budget and Management, the Richland County Auditor, and appointee of the Superintendent of Public Instruction, and an appointee of the Governor.

The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education’s discretion is limited in that all financial activity of the School District must be in accordance with the plan. The recovery plan was adopted on August 23, 2005. State law requires that the plan be updated annually. The recovery plan includes staff reductions of three administrators, 50 classified and 32 certified positions and the closure of one elementary school building with an estimated savings of \$3,200,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal year 2007 and beyond.

Note 14 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2007 through 2011 was filed in February 2007. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The financial plan assumes the continued operation of the School District with \$2,000,000 in revenue from an income tax levy. The plan also assumes annual step increases and base salary increases, staff reductions, and an increase in health care benefits for the fiscal years 2008 through 2011. Operating surpluses are forecast for fiscal years 2007 through 2011.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for information purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.



Mary Taylor, CPA
Auditor of State

SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**