



**Auditor of State
Betty Montgomery**

**Sheffield-Sheffield Lake School District
Lorain County, Ohio**

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

Local Government Services Section

**Sheffield-Sheffield Lake City School District
Lorain County**

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**Auditor of State
Betty Montgomery**

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

and

Board of Education
Sheffield-Sheffield Lake City School District
1824 Harris Road
Sheffield, Ohio 44054

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 Sheffield-Sheffield Lake City School District, Lorain County, Ohio and issued a report dated February 7, 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 of \$771,000 as of June 30, 2005.

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

March 18, 2005

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**Auditor of State
Betty Montgomery**

Board of Education
Sheffield-Sheffield Lake City School District
1824 Harris Road
Sheffield, Ohio 44054

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 Sheffield-Sheffield Lake City School District for the fiscal year ending June 30, 2005. The Sheffield-Sheffield Lake 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 Sheffield-Sheffield Lake City School District for the fiscal years ended June 30, 2002, 2003 and 2004 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.

Betty Montgomery

Betty Montgomery
Auditor of State

February 7, 2005

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN 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
Revenues				
General Property Tax (Real Estate)	\$6,250,000	\$6,405,000	\$6,917,000	\$7,100,000
Tangible Personal Property Tax	1,881,000	1,722,000	1,425,000	1,397,000
Unrestricted Grants-in-Aid	5,031,000	5,001,000	5,373,000	5,309,000
Restricted Grants-in-Aid	96,000	141,000	71,000	62,000
Property Tax Allocation	807,000	886,000	873,000	910,000
All Other Revenues	325,000	283,000	536,000	792,000
<i>Total Revenues</i>	<u>14,390,000</u>	<u>14,438,000</u>	<u>15,195,000</u>	<u>15,570,000</u>
Other Financing Sources				
Proceeds from the Sale of Notes	470,000	700,000	920,000	0
Advances In	0	21,000	0	33,000
Transfers In	0	0	0	0
<i>Total Other Financing Sources</i>	<u>470,000</u>	<u>721,000</u>	<u>920,000</u>	<u>33,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>14,860,000</u>	<u>15,159,000</u>	<u>16,115,000</u>	<u>15,603,000</u>
Expenditures				
Personal Services	9,556,000	9,880,000	9,887,000	10,202,000
Employees' Retirement/Insurance Benefits	2,826,000	3,025,000	3,243,000	3,639,000
Purchased Services	1,178,000	1,096,000	1,478,000	1,723,000
Supplies and Materials	475,000	270,000	410,000	289,000
Capital Outlay	114,000	39,000	131,000	72,000
Debt Service:				
Principal - Tax Anticipation Notes	105,000	404,000	700,000	460,000
Principal - Energy Conservation Notes	72,000	0	0	0
Interest	32,000	0	23,000	40,000
Other Objects	173,000	304,000	356,000	345,000
<i>Total Expenditures</i>	<u>14,531,000</u>	<u>15,018,000</u>	<u>16,228,000</u>	<u>16,770,000</u>
Other Financing Uses				
Transfers Out	181,000	0	88,000	95,000
Advances Out	21,000	0	33,000	31,000
<i>Total Other Financing Uses</i>	<u>202,000</u>	<u>0</u>	<u>121,000</u>	<u>131,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>14,733,000</u>	<u>15,018,000</u>	<u>16,349,000</u>	<u>16,901,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	127,000	141,000	(234,000)	(1,298,000)
Cash Balance July 1	585,000	712,000	853,000	619,000
Cash Balance (Deficit) June 30	712,000	853,000	619,000	(679,000)
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	24,000	243,000	57,000	60,000
Reservations of Fund Balance for:				
Capital Improvements	0	166,000	0	0
Bus Purchase	27,000	56,000	13,000	25,000
Disadvantaged Pupil Impact Aid	0	7,000	7,000	7,000
Parity Aid	0	44,000	0	0
<i>Total Encumbrances and Reserves of Fund Balance</i>	<u>51,000</u>	<u>516,000</u>	<u>77,000</u>	<u>92,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>\$661,000</u>	<u>\$337,000</u>	<u>\$542,000</u>	<u>(\$771,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies

Sheffield-Sheffield Lake City School District - Lorain County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 1 - The School District

The Sheffield-Sheffield Lake City School District (School District) is located in Lorain County and encompasses all of the City of Sheffield and the Village of Sheffield Lake. 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 six public schools including one high school, one middle school, and four elementary schools. The School District is staffed by 95 non-certified and 156 certificated personnel to provide services to approximately 2,030 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Sheffield-Sheffield Lake 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 February 7, 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 resources 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 emergency levy fund, 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.

Sheffield-Sheffield Lake City School District - Lorain County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

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 that 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 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).

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 trust 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. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Sheffield-Sheffield Lake City School District - Lorain County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Budget – A budget of estimated cash receipts and disbursements is submitted to the Lorain 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 Sheffield-Sheffield Lake 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 property, public utility real and personal property and tangible personal property taxes. General property tax revenue includes real estate taxes and public utility property taxes. Tangible personal property tax is applied to property used in business (except for public utilities). Property taxes are distributed to the School District by the Lorain County Auditor. The School District may request advances from the 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.

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”.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

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 Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation	n/a	n/a	\$3.76
Continuing Operating	1976	n/a	31.60
Continuing Operating	1993	n/a	7.70
Emergency	2000	2005	7.81
Total Tax Rate			\$50.87

The School District also has a levy for permanent improvement totaling \$1.00 per \$1,000 of assessed valuation. The School District's total rate is \$51.87 per \$1,000 of assessed value.

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 taxes as in the year in which the levy was approved. Increases to voted levy revenues, other than emergency and bond levies, are restricted to assessments for new construction. 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 \$28.81 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$29.60 per \$1,000 of assessed valuation for collection year 2005.

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the calendar year are recorded as revenue in the next fiscal year. New and/or expiring levies result in one-half of the annual revenue being recorded in the first and/or last fiscal year of collection.

General Property Tax (Real Estate) - The general property tax revenue estimate is based upon actual receipts and information provided by the Lorain County Auditor. Based upon these estimates, the School District anticipates receiving \$7,100,000 in real estate and public utility tax revenue, an increase of \$183,000 over the prior fiscal year. The increase is primarily due to new construction and increased valuations.

Tangible Personal Property Tax - Tangible personal property tax revenues are based upon information provided by the Lorain County Auditor. The \$28,000 decrease is attributed to the deregulation of public utilities, the State reimbursement for the \$10,000 personal property exemption being phased out at ten percent per year beginning with fiscal year 2005, and the phase out of the tangible personal property tax on inventory.

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 and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as parity aid, excess cost supplement, and charge-off supplement are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

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	\$4,133,000	\$3,701,000	\$3,916,000	\$3,626,000	(\$290,000)
Basic Aid Guarantee	90,000	442,000	292,000	577,000	285,000
Categorical Funding	414,000	315,000	436,000	477,000	41,000
Transportation	346,000	384,000	428,000	407,000	(21,000)
Parity Aid	0	0	125,000	111,000	(14,000)
Reappraisal Guarantee	0	0	0	34,000	34,000
Foundation Adjustments	6,000	107,000	85,000	(22,000)	(107,000)
Total Foundation	4,989,000	4,949,000	5,282,000	5,210,000	(72,000)
Utility Deregulation	42,000	52,000	91,000	99,000	8,000
Total Unrestricted Grants-in-Aid	<u>\$5,031,000</u>	<u>\$5,001,000</u>	<u>\$5,373,000</u>	<u>\$5,309,000</u>	<u>(\$64,000)</u>

Formula aid decreased due to a decline in ADM and an increase in the School District's recognized valuation. These amounts are offset by an increase in per pupil funding amounts.

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. For 2005, the increase in the parity aid distribution has been offset by a decrease in the School District's per pupil parity aid amount and a decrease in formula ADM. The decrease in the per pupil parity aid amount was caused by changes in local wealth and threshold local wealth of the School District.

Basic Aid Guarantee is the amount of additional aid on top of the current year's calculated formula aid needed to bring the School District up to the fiscal year 1998 funding level, the guaranteed amount. The increase in basic aid guarantee is due to the decrease in formula aid caused by the decrease in ADM and an increase in the property valuation.

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 to be made twice a year in February and August.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

C. Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and DPIA monies. For fiscal year 2005, the School District anticipates \$12,000 in bus purchase allowance monies, \$31,000 in career tech monies and \$19,000 in DPIA monies. A \$9,000 decrease is anticipated from the prior fiscal year due primarily to the School District receiving less career tech monies from the State.

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 Lorain County Auditor, is anticipated to be \$910,000, an increase of \$37,000 over the prior fiscal year. This increase is due to new construction and an increase in valuations.

E. All Other Revenues

All other revenues include tuition, interest on investments, classroom material sales and fees, miscellaneous receipts, sale of assets, refunds of prior year expenditures and payments in lieu of taxes.

The School District receives tuition from other school districts whose students attend the Sheffield-Sheffield Lake City School District, which includes open enrollment students. The \$204,000 increase is the result of additional open enrollment students during fiscal year 2005.

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.

The Village of Sheffield and Old Castle, Inc. have agreed to a tax abatement for the company of 60 percent and Old Castle will in turn give the Sheffield-Sheffield Lake \$25,000 per year.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005	Variance Increase (Decrease)
Tuition	\$135,000	\$64,000	\$89,000	\$90,000	\$1,000
Open Enrollment	0	163,000	407,000	611,000	204,000
Interest on Investments	52,000	31,000	14,000	23,000	9,000
Classroom Materials and Fees	0	8,000	6,000	6,000	0
Rentals	1,000	1,000	1,000	1,000	0
Miscellaneous	84,000	14,000	16,000	32,000	16,000
Sale of Assets	52,000	1,000	2,000	2,000	0
Refunds of Prior Year Expenditures	1,000	1,000	1,000	2,000	1,000
Payments in Lieu of Taxes	0	0	0	25,000	25,000
Totals	325,000	283,000	536,000	792,000	256,000

Sheffield-Sheffield Lake City School District - Lorain County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

F. Proceeds from the Sale of Notes

In fiscal year 2001, the School District authorized the issuance of \$2,300,000 in notes in anticipation of the collection of taxes from the emergency levy approved by the votes on March 7, 2000. The note proceedings allow the School District to draw down principal on the notes up to the maximum balance available each year during the term of the notes. The amount presented in the financial statement represents the amount drawn down each fiscal year.

G. Advances In

During fiscal year 2004, advances were made for a total of \$33,000 to other School District funds. For fiscal year 2005, those advances are expected to be repaid, therefore advances in has been forecasted for \$33,000.

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified, and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance, and overtime. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

Certified (teacher) staff salaries include base and step increases and educational incentives. Base salary increases for fiscal years 2002, 2003, and 2004 were 3.0 percent, 1.5 percent, and 3.9 percent, respectively, effective January 1 each year. The last negotiated contract provided for an automatic extension to December 31, 2005 if the Board approved, by November 2004, a base salary increase of 2.75 percent beginning January 1, 2005. The Board took no such action and is in negotiations with the teachers. The Board does not plan to grant any base salary increase for the current fiscal year and the forecast assumes only step increases effective January 1, 2005.

The likelihood of achieving no base salary increase for the current fiscal year is unknown and the realization of the forecast is particularly sensitive to any increase in the base salary. An increase of one percent in the base salary for the teachers, effective January 1, 2005, would increase salaries by approximately \$37,000 for the six-month period.

The contract for classified staff covers the period of July 1, 2004 through June 30, 2005, and allows for a 2.75 percent base salary increase as well as an average 2.09 percent step increase for fiscal year 2005.

The School District offers severance pay to its certified and classified employees with ten or more years of service with the School District. The severance payment is 25 percent of their unused sick leave up to a maximum payment of 70 days. The amount due is paid in two equal installments.

During fiscal year 2004, the School District laid off eight employees due to lack of work for those positions. In addition, the position of transportation paraprofessional was abolished and one employee was laid off due to lack of funding for that position. Five employees were called back to work for fiscal year 2005. On December 13, 2004, two employees were laid off due to lack of work for those positions. The forecast assumes that staff levels will remain at the January 2005 levels.

Sheffield-Sheffield Lake City School District - Lorain 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 fiscal years 2002, 2003, and 2004, 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	\$6,771,000	\$6,942,000	\$7,158,000	\$7,383,000	\$225,000
Classified Salaries	2,000,000	1,935,000	1,875,000	1,965,000	90,000
Substitute Salaries	369,000	514,000	494,000	497,000	3,000
Supplemental Contracts	242,000	264,000	258,000	263,000	5,000
Severance Pay	162,000	203,000	85,000	79,000	(6,000)
Overtime	1,000	10,000	2,000	0	(2,000)
Compensation of Board Members	11,000	12,000	15,000	15,000	0
Totals	<u>\$9,556,000</u>	<u>\$9,880,000</u>	<u>\$9,887,000</u>	<u>\$10,202,000</u>	<u>\$315,000</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 employers' contribution rate of fourteen percent of salaries for STRS and SERS members. The payments are deducted over the next calendar year from the semi-monthly State foundation settlements based on an estimate of the salaries and wages for the fiscal year submitted to the pension systems in the first quarter of each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. The School District pays a portion of the Superintendent's and the Treasurer's employee contributions.

Health care costs are based on the estimated claims and administrative charges for the School District's self-insured health care program. Contributions are adjusted July 1 of each year based on estimates provided by the plan's administrator. The Board pays approximately 90 percent of the contribution and the employees pay the balance. All funds, including the general fund, are charged for the number of employees participating in the program and the type (single or family) of coverage provided to each employee. The self-insured health care program includes medical/surgical, prescription drug and dental care. Health care contributions increased 24 percent for fiscal year 2005.

Life insurance premiums are based on the coverage terms of the existing contracts, the anticipated number of employees participating in the program and the monthly premiums. Life insurance costs increased by 2.96 percent over the prior fiscal year.

Workers' compensation premiums are based on the School District's assigned rate and the salaries and wages paid in the previous calendar year. An increase is forecasted due to an increase in the assigned rate and an increase in the 2004 calendar year salaries and wages paid. The increase is partially offset by a 20 percent rebate. In prior years workers' compensation premiums reflected rebates of 75 percent for fiscal year 2002, 50 percent for fiscal year 2003 and 20 percent for fiscal year 2004.

Medicare benefits are based on the employers' rate of 1.45 percent of the payroll costs for contributing staff.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

The School District anticipates paying unemployment benefits of \$4,000 during fiscal year 2005. This decrease is due less staff laid off and some that were laid off called back for fiscal year 2005.

Presented below is a comparison of fiscal year 2004 and the forecast period:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Employer's Retirement	\$1,370,000	\$1,387,000	\$1,478,000	\$1,454,000	(\$24,000)
Insurance	1,338,000	1,520,000	1,599,000	1,982,000	383,000
Workers' Compensation	33,000	21,000	44,000	99,000	55,000
Medicare	83,000	94,000	99,000	100,000	1,000
Unemployment	2,000	3,000	23,000	4,000	(19,000)
Totals	\$2,826,000	\$3,025,000	\$3,243,000	\$3,639,000	\$396,000

C. Purchased Services

Purchased service expenditures forecasted in the amount of \$1,723,000 are comprised of the following:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Professional and Technical Services	\$236,000	\$276,000	\$209,000	\$235,000	\$26,000
Property Services	246,000	236,000	217,000	211,000	(6,000)
Travel and Meeting Expenses	16,000	16,000	30,000	33,000	3,000
Communication Costs	73,000	48,000	74,000	77,000	3,000
Utility Services	326,000	257,000	340,000	350,000	10,000
Trade Services	2,000	3,000	4,000	4,000	0
Tuition Payments	85,000	252,000	581,000	790,000	209,000
Pupil Transportation	6,000	7,000	7,000	7,000	0
Other Purchased Services	188,000	1,000	16,000	16,000	0
Totals	\$1,178,000	\$1,096,000	\$1,478,000	\$1,723,000	\$245,000

The School District implemented cost-cutting procedures with the intention of only making necessary purchases. Professional services are anticipated to increase due to contract negotiations. Tuition paid to other school districts is anticipated to increase due to special education, open enrollment, and the larger number of students attending community schools.

D. Supplies and Materials

Expenditures for supplies and materials are comprised of the following:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$126,000	\$117,000	\$115,000	\$86,000	(\$29,000)
Operations, Maintenance and Repair	154,000	140,000	162,000	153,000	(9,000)
Textbooks	195,000	13,000	133,000	50,000	(83,000)
Totals	\$475,000	\$270,000	\$410,000	\$289,000	(\$121,000)

The decrease in materials and supplies is due to the cost-cutting measures implemented by the School District.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

E. Capital Outlay

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

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Equipment - New	\$88,000	\$37,000	\$9,000	\$10,000	\$1,000
School Buses	0	0	116,000	50,000	(66,000)
Other	0	0	1,000	1,000	0
Equipment - Replacement	26,000	2,000	5,000	11,000	6,000
Totals	<u>\$114,000</u>	<u>\$39,000</u>	<u>\$131,000</u>	<u>\$72,000</u>	<u>(\$59,000)</u>

The School District implemented cost-cutting measures with the intention of only making necessary purchases. The School District purchased one bus during fiscal year 2004, but anticipates only purchasing necessary items or replacement parts during fiscal year 2005. The School District has a permanent improvement fund that generates approximately \$320,000 annually. The School District uses this fund to make all major capital expenditures.

F. Debt Service

In fiscal year 2001, the School District issued notes in the amount of \$2,300,000 in anticipation of the revenues from the emergency levy renewed by the voters in March 2000. The note bears interest of 5.8 percent. The purchaser of the notes, First Merit Bank, allows the School District to draw down on the note proceeds as needed and in increments of \$10,000 and repay principal during the term of the notes to minimize the interest costs. The maximum principal that may be outstanding during the term of the notes is as follows:

	<u>Maximum Permitted Principal Amount</u>
December 1, 2001 through November, 2002	\$1,840,000
December 1, 2002 through November, 2003	1,380,000
December 1, 2003 through November, 2004	920,000
December 1, 2004 through November, 2005	460,000

The annual principal payment is the amount that will reduce the outstanding principal at December 1, each year to the maximum principal permitted to be outstanding. In fiscal years 2002, 2003, and 2004, the School District paid principal equal to the amount of note proceeds drawn down in the prior fiscal year. However, in fiscal year 2002 \$66,000 of the \$470,000 in principal paid in that fiscal year and the interest was paid out of the Permanent Improvement fund. In fiscal year 2005, principal in the amount of \$460,000 will be paid in order to reduce the outstanding balance to the maximum permitted to be outstanding.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

G. Other Objects

Other object expenditures consist of dues and fees and general liability insurance.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Dues and Fees	\$34,000	\$121,000	\$138,000	\$140,000	\$2,000
Auditor and Treasurer Fees	116,000	115,000	123,000	118,000	(5,000)
Election Expenses	0	1,000	9,000	20,000	11,000
Other Miscellaneous	23,000	67,000	86,000	67,000	(19,000)
Totals	<u>\$173,000</u>	<u>\$304,000</u>	<u>\$356,000</u>	<u>\$345,000</u>	<u>(\$11,000)</u>

The School District anticipates an increase in election expenses due to having levies on the ballot at the 2005 special elections. A decrease is expected in auditor and treasurer fees due to a decrease in personal property tax collections.

H. Operating Transfers and Advances Out

Advances out are anticipated to be \$31,000 during fiscal year 2005 to cover projected deficits in various grant funds. The School District is closely monitoring the grant funds activity to avoid future deficits. The School District expects to make transfers from the general fund to the athletic fund to cover the costs of referees and umpires and to the permanent improvement capital projects fund for debt payments.

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 the budgetary 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 benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2004 were \$57,000 and are forecasted at \$60,000 for June 30, 2005.

Note 9 - Reservations of Fund Balance

The School District is required by State statute to set aside annually 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 the future years.

Sheffield-Sheffield Lake City School District - Lorain County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

A. Textbooks and Instructional Materials

The set aside requirement for fiscal year 2005 is \$297,000. The School District spent \$303,000 more than what was required in prior fiscal years and anticipates \$126,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve for textbooks and instructional materials is forecasted.

B. Capital Acquisition and Improvements

The set aside amount for fiscal year 2005 is \$297,000. The School District anticipates \$320,000 in offsets and \$167,000 in qualifying expenditures in during the current fiscal year. Therefore, no reserve for capital acquisition and improvements is forecasted.

C. Bus Purchases

At June 30, 2004, the School District had \$13,000 in unspent bus monies. The School District received \$12,000 in a bus purchase allowance during fiscal year 2005. The School District does not anticipate spending this money in fiscal year 2005 leaving a reserve balance of \$25,000.

D. Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2004, the School District had \$7,000 in unspent DPIA monies. The School District anticipates receiving \$19,000 in restricted DPIA monies during fiscal year 2005 and anticipates spending \$19,000 in DPIA expenditures during fiscal year 2005. Therefore, a reserve of \$7,000 is anticipated for DPIA.

Note 10 - Levies

The School District will seek voter approval for the renewal of an emergency levy on the May 2005 ballot. The levy generates \$2,300,000 in revenues annually. If approved, collections will begin in fiscal year 2006. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
February, 1995	Operating	\$2,300,000	5 Years	Failed
May, 1995	Emergency - New	2,300,000	5 Years	Passed
November, 1997	Bond Issue - Construction	5.9861 Mills	29 Years	Failed
March, 2000	Emergency - Renewal	2,300,000	5 Years	Passed
November, 2002	Emergency - New	1,380,000	5 Years	Failed
May, 2003	Emergency - New	2,265,000	5 Years	Failed
August, 2003	Emergency - New	2,832,000	5 Years	Failed
November, 2003	Emergency - New	2,832,275	5 Years	Failed
March, 2004	Emergency - New	3,086,785	5 Years	Failed
August, 2004	Emergency - New	5,122,300	5 Years	Failed
November, 2004	Emergency - New	2,764,462	5 Years	Failed
February, 2005	Emergency - New	3,087,200	5 Years	Failed

Sheffield-Sheffield Lake City School District - Lorain County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

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 - 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.

Note 13 - Financial Planning and Supervision Commission

On January 11, 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 have been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction, and the Mayor of the City of Sheffield and Sheffield Lake.

The financial recovery plan is to be adopted by the Commission by April 19, 2005.



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**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 18, 2005**