



Mary Taylor, CPA
Auditor of State

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

Fiscal Emergency Termination

Local Government Services Section

**Shelby City School District
Richland County**

Fiscal Emergency Termination

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Mary Taylor, CPA

Auditor of State

CERTIFICATION

Pursuant to a request sent to the Auditor of State by the Shelby City School District Financial Planning and Supervision Commission, the Auditor of State performed an analysis of the Shelby City School District to determine whether the Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated. Based on our analysis, the Auditor of State certifies that the Shelby City School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, that the objectives of the financial recovery plan are being met, that an effective financial accounting and reporting system in accordance with Section 3316.10 of the Revised Code is in the process of being implemented and it is reasonably expected that this implementation will be completed within two years, and that the Board of Education has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be nonadverse. Therefore, the existence of the Shelby City School District Financial Planning and Supervision Commission and its role in the operation of the Shelby City School District is terminated as of May 1, 2008.

Accordingly, this report is hereby submitted to the Shelby City School District Board of Education, the Financial Planning and Supervision Commission, Ted Strickland, Governor, J. Pari Sabety, Director of the Office of Budget and Management, James E. Henkel, Mayor of the City of Shelby, and Susan Tave Zelman, State Superintendent of Public Instruction.

At the time of termination of the Commission, an effective financial accounting and reporting system has not been fully implemented. Section 3316.16(E), Revised Code, requires the Auditor of State to monitor the progress of implementation and exercise authority under this section and Chapter 117, Revised Code, to secure full implementation within two years.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

May 1, 2008

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Shelby City School District – Richland County

Report on Termination of the Shelby City School District Financial Planning and Supervision Commission

At the request of the Financial Planning and Supervision Commission of the Shelby City School District (the Commission), Richland County, Ohio, as provided by Section 3316.16(B) of the Ohio Revised Code, the Auditor of State has performed an analysis to determine whether this Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated.

The Declaration of Fiscal Emergency

On October 8, 2004, the Department of Education declared the Shelby City School District to be in a state of Fiscal Caution based on an anticipated deficit for fiscal years 2005 and 2006. The Department of Education notified the Auditor of State that the Shelby City School District failed to submit an acceptable written proposal required by Section 3316.031(C) for correcting the conditions that prompted the declaration of Fiscal Caution.

The Auditor of State declared the Shelby City School District in Fiscal Emergency on April 7, 2005 based on a forecasted operating deficit in the general fund for the year ending June 30, 2005 in the amount of \$3,253,000, or 21 percent of the general fund revenues for the prior fiscal year, and that the voting electors of the School District had not passed a levy that would have eliminated the deficit. The state of Fiscal Emergency was declared under Section 3316.03(B)(2) of the Ohio Revised Code and a Financial Planning and Supervision Commission was created whose purpose is to direct the School District's return to financial stability.

Termination of Fiscal Emergency

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency condition have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse".

The results of the analysis performed by the Auditor of State to determine if each of these four conditions has been satisfied follows.

Section 1 - Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the Shelby City School District (the School District) and issued a

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Report on Accounting Methods, dated September 7, 2006. The report identified areas where the School District's financial accounting and reporting system were not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

The criteria for termination of the Commission include a determination by the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation and is expected to be completed within two years. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct these issues identified in the Financial Accounting Report. A summary of each area of noncompliance identified in the Report on Accounting Methods and the status of each corrective action is presented below:

Budgetary Process

Auditor of State Comment from Report on Accounting Methods:

- Section 5705.30, Revised Code, requires that public notice of the public hearing on the tax budget be given by at least one publication not less than ten days prior to the date of hearing in a newspaper having general circulation in the School District. The School District does not publish a notice in the newspaper.

Implemented:

Notice of the hearing on the tax budget for fiscal year 2009 was published in the local newspaper on January 3, 2008 for the tax budget hearing held on January 10, 2008.

Auditor of State Comment from Report on Accounting Methods:

- The School District did not file the five-year forecast with the Ohio Department of Education by October 31, 2005.

Implemented:

The five-year forecast for fiscal year 2008 was filed with the Ohio Department of Education on October 26, 2007.

Auditor of State Comment from Report on Accounting Methods:

- The Board-adopted appropriation measures did not have a certification of available revenues attached as required by Section 5705.412, Revised Code. Section 5705.412, Revised Code requires a certificate of available revenue be attached to each appropriation, except a temporary appropriation measure meeting certain criteria. Under Section 3301-92-05(E) of the Ohio Administrative Code, each school district shall maintain sufficient documentation to justify each certification made under section 5705.412 of the Revised Code, and must identify the actual date of certification.

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Implemented:

The Board adopted permanent appropriations on September 26, 2007 and an amended appropriation measure dated November 10, 2007. Both included a certification of available revenue as required by Section 5705.412.

Auditor of State Comment from Report on Accounting Methods:

- The Board of Education approves changes or amendments to the appropriations as part of the monthly financial report prepared by the Treasurer. Changes to appropriations should be presented and approved separately in a resolution specific to appropriations.

Implemented:

All appropriation changes are now presented to and approved by the Board in a separate resolution specific to appropriations.

Auditor of State Comment from Report on Accounting Methods:

- Section 5705.39, Revised Code, requires a certified copy of each appropriation resolution be sent to the County Auditor. The Treasurer should consult legal counsel to determine the correct method of providing a certified copy to the County Auditor.

Implemented:

The Treasurer has consulted the School District's legal counsel as to the correct method of providing the certified copy of the appropriation measure to the County Auditor. Legal counsel has indicated that the current practice of providing a certified copy of the appropriation resolution to the County Auditor by facsimile, email or United States mail satisfies this requirement.

Auditor of State Comment from Report on Accounting Methods:

- The School District should update its Policy Manual to include several items in the budgetary process. The first item is the legal level of control, the level at which the Board will adopt appropriations. At a minimum, appropriations must be adopted at the fund level for all funds. The Board, if it chooses, may require more detail such as function and/or object.

The policy manual should address the five-year forecast requirements, the filing requirement with the Ohio Department of Education, and the circumstances under which the Board wants its forecast updated during the fiscal year. The policy manual should also define the process by which the Board will review the forecast prior to adoption by Board resolution.

The initial allocation and subsequent re-allocations of Board approved appropriations are made at the discretion of the Treasurer. There is no control or documentation over the allocations. The policy manual should require the approval of the superintendent for the initial allocation and subsequent re-allocations of the Board appropriations and the treasurer should be responsible for recording the changes. The level of control should be at the fund, function, and object level within each building.

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The policy manual should also require the Treasurer to report to the Board as part of the monthly report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken and how further occurrences will be avoided.

In Process of Implementation:

The School District has contracted with the Ohio School Boards Association (OSBA) to update and revise the policies and procedures manual for the School District. Policies suggested by OSBA regarding the five-year forecast requirements, appropriations and the Treasurer's reporting to the Board will be reviewed by the policy committee which includes the Treasurer, the Superintendent and two Board members. After approval of the policy committee the revised policies will be presented to the Board for approval by resolution when the manual is complete.

Auditor of State Comment from Report on Accounting Methods:

- The Board adopts permanent appropriations prior to meeting the statutory criteria for the adoption of permanent appropriations. Section 5705.38, Revised Code, indicates that annual appropriations should be adopted by October 1 provided an amended certificate of estimated resources or a certification that no amended certificate need be issued has been received from the County Auditor (Refer to Auditor of State bulletin 98-012).

Not Implemented:

Fiscal year 2008 permanent appropriations were adopted on September 26 prior to receiving an amended certificate or a certificate stating that no amended certificate need be issued from the County Auditor.

Revenue Activity

Auditor of State Comment from Report on Accounting Methods:

- The School District does not have written procedures for the receipt of money. The Treasurer should document the procedures to be followed for the receipt and deposit of money and to demonstrate compliance with Board policies.

Implemented:

The Shelby City School District has documented the procedures to be followed for the receipt and deposit of monies which includes using a pre-numbered, multi part receipt form or system generated receipt and depositing monies daily using a three part deposit ticket.

Auditor of State Comment from Report on Accounting Methods:

- The Gate Receipt Ticket Tally form used to account for the collection of money for extracurricular activities should have a place designated on it for a signature by the person responsible for preparing the form.

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Implemented:

The Gate Receipt Ticket Tally form has been updated by the Athletic Director to include a signature line for the person responsible for preparing the form.

Auditor of State Comment from Report on Accounting Methods:

- The Athletic Director does not return the change fund to the Treasurer's Office at the end of each year. The money for the change fund should be returned to the Treasurer's Office at the end of each school year and re-issued to the Athletic Director at the beginning of the next school year.

Implemented:

Change funds in the amount of \$5,000 were returned to the Treasurer's Office by the Athletic Director at the end of fiscal year 2007 and re-issued in August 2007.

Auditor of State Comment from Report on Accounting Methods:

- Before any errors on the CN-6 or CN-7 are corrected, they should be researched and documented to substantiate the change.

Implemented:

All errors on the CN-6 or CN-7 reports are thoroughly researched and documented by the Food Service Director prior to any corrections being made to the reports.

Auditor of State Comment from Report on Accounting Methods:

- Cafeteria receipts are posted in a monthly lump sum amount. Cafeteria receipts should be reconciled and posted on a more timely basis.

Implemented:

Beginning in March 2007, cafeteria receipts are reconciled to cash and posted by account and by building in a series of entries for the current month. Although posting is still monthly it is done before the months closing. The School District is aware of the advantages of daily posting. At this time this would require additional staff time which is not available in the Food Service Department. The School District will continue to post monthly and try to identify alternatives that would allow for daily posting.

Auditor of State Comment from Report on Accounting Methods:

- A policy should be implemented to ensure that discrepancies from ticket sales are documented and dealt with in a consistent manner.

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In Process of Implementation:

The School District has implemented a policy addressing discrepancies from ticket sales. The policy indicates that discrepancies in cash collection and ticket sales are to be noted on the ticket tally forms, reviewed by the Athletic Director and discussed with the ticket taker. However, the policy should address what action is taken, if any, in addition to a discussion with the ticket taker.

Auditor of State Comment from Report on Accounting Methods:

- The School District’s Board policy for student activities states that each student activity advisor shall submit to the Superintendent, by October 1 of each year, the following: a policy and/or purpose which will define the organization, the source of the activity’s revenues, and the reasons for which the activity’s funds will be spent. The Board policy should be followed. No form or document is being submitted for each student activity to be approved each fiscal year.

Not Implemented:

The Student Activity purpose statement form has been revised. Student Activity Purpose forms are being completed for the current fiscal year, but none have been submitted to or approved by the Superintendent by October 1, according to the policy.

Purchasing Process

Auditor of State Comment from Report on Accounting Methods:

- Section 5705.41(D)(3), Revised Code, allows the fiscal officer to certify expenditures in an amount not in excess of an amount established by resolution adopted by a majority of the members of the board of education. This type of certification, referred to as a blanket certification (blanket purchase orders), has not been authorized by the board of education. The Board of Education should set by resolution the maximum dollar amount for blanket certifications.

Implemented:

The Board, by Resolution 3.4, has established a maximum dollar amount of \$100,000 for the blanket certifications.

Auditor of State Comment from Report on Accounting Methods:

- The School District should provide 412 certificates signed by the Treasurer, Superintendent and Board president for all negotiated agreements, salary schedules and construction contracts. The “412” certificates should be signed at the time the contract was approved by the Board or no later than the time the contract is signed. The only “412” certificate that School District had was for an insurance contract.

In Process of Implementation:

412 Certificates are completed for approved wage and salary schedules. These are on file in the Treasurer’s office. The School District has not entered into any qualifying contracts during the period July, 2007 through the date of this report, so no 412 Certificates have been issued. The School District understands the need to issue a 412 Certificate when required.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should update the Board Policies for purchasing to address the involvement of the Treasurer and Superintendent, the use of super blanket purchase orders, the statutory certifications by the treasurer including “Then and Now” certifications, the use of quotes from vendors and for enforcing responsibility for purchases made without approval.

In Process of Implementation:

The School District has contracted with the Ohio School Boards Association (OSBA) to update and revise the policies and procedures manual for the School District. Policies suggested by OSBA regarding purchasing will be reviewed by the policy committee which includes the Treasurer, the Superintendent and two Board members. After approval of the policy committee the revised policies will be presented to the Board for approval when the manual is complete.

Auditor of State Comment from Report on Accounting Methods:

- The unresolved findings for recovery database of the Auditor of State is checked when a new vendor is added. No other verification of outstanding findings for recovery is performed for those vendors used by the School District. The School District should perform the search for all contracts executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to the requirements of Section 9.24 of the Ohio Revised Code.

In Process of Implementation:

No contracts have been issued pursuant to a formal competitive contracting procedure this fiscal year; however, the School District is aware of the requirement to review the database for unresolved findings for recovery.

Cash Disbursements

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer does not review any checks after they are printed and electronically signed. The Treasurer should review printed checks to ensure that the checks are complete and to ensure that the amounts have not been changed.

Implemented:

When a batch of checks is printed, a listing of the checks including check number, amount and payee is also printed. The Treasurer reviews the list of checks and signs and dates it to attest that the checks are approved for payment prior to the checks being mailed.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should document the procedures for cash disbursements including the staff positions involved in the process and their functions. The document should also include procedures for when only partial orders are received, for when an invoice exceeds the purchase order/fiscal officer certification of funds, and for when the use of “Then and Now” certifications is necessary. The document should be kept on file in the Treasurers’ office.

Implemented:

The School District has documented the procedures for cash disbursements which includes staff positions and their functions. The procedures indicate that payment may not be made until the entire order is received and that the accounts payable clerk may process invoices that exceed the purchase order by less than five percent. Invoices that exceed five percent of the purchase order are stamped “invoice exceeds PO by greater than five percent” and require the Treasurer’s approval before payment is made. “Then and Now” certifications are only used when necessary. The invoice is stamped with a “Then and Now” certificate and it is signed by the Treasurer. Then and Now certifications under \$3,000 are approved by the Treasurer and those over \$3,000 are approved by resolution of the Board of Education.

Auditor of State Comment from Report on Accounting Methods:

- Each month a Check Register report is made available to the Board. However, the Board policy states, “...at each regular meeting the Board will receive a resolution which lists bills paid from school funds.” No resolution is presented at the regular Board meetings. Nowhere do the minutes reflect that the Board has approved any bills paid from school funds. The Board policy must be followed and the minutes should reflect such action. The Treasurer should review with legal counsel Section 3313.18, Revised Code, to determine how to comply with its requirements.

Implemented:

At each regular Board meeting, the Board now receives a listing of all bills paid for the previous month. The listing is also included with the Treasurer’s Financial Report and is approved by resolution of the Board and documented in the minutes.

Payroll Processing

Auditor of State Comment from Report on Accounting Methods:

- The School District should provide “412” certificates signed by the treasurer, superintendent and Board president for all negotiated agreements and salary schedules. The “412” certificates should be signed at the time the contract is approved by the Board or no later than the time the contract is signed. The certificate should be attached to or incorporated in the contract.

Not Implemented:

A “412” certificate has been executed for the support staff labor contract; however, it only covers two years of the three year contract. A “412” certificate for the teacher labor contract is not available.

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Capital Assets and Supplies Inventory

Auditor of State Comments from Report on Accounting Methods:

- The capital assets policy should be expanded to address valuing donated assets, assigning salvage values and addressing private property (items belonging to staff and students).
- The Board of Education should approve changes in capitalization thresholds by resolution. The policy should be updated to include the new capitalization threshold.
- The School District’s consumable inventory procedures should be updated to include the items to be inventoried, method to be used, and the individuals responsible for verifying the count. The procedures should include a standard form for counting fiscal year-end inventory.
- According to the School District’s policy, a physical inventory is to be taken in June. This is not being done. If the inventory is considered to be immaterial, the Treasurer should take measures to determine this annually or make it part of the Board policy that inventories will be kept to a minimum.
- The Board needs a policy to account for missing assets. Keeping the missing asset on a list fails to recognize if a potential theft has occurred. Procedures should be adopted for reporting when an asset is moved to the EMIS/Inventory Coordinator.

In Process of Implementation:

The School District is in the process of updating and revising the policies and procedures manual for the School District.

Cash Management and Investing

Auditor of State Comment from Report on Accounting Methods:

- The investment policy reflects the guidelines the School District follows when making investments. These guidelines include the type and length of investments allowed as well as who has been designated by the Board of Education to make investments and comply with Ohio Revised Code. The investment policy, however, does not address the allocation of interest. It should be updated to do so.

Implemented:

The investment policy was adopted at the June 21, 2007 Board meeting by resolution. The policy states that investment income will be allocated to the various funds as designated by the Board at the annual re-organizational meeting. At the January 10, 2008 re-organizational meeting, the Board passed Resolution 3.7 directing the Treasurer to distribute interest in fiscal year 2008 to the food service (006), expendable trusts (007), non-expendable trusts (008), insurance liability (024) and auxiliary service funds (401) at a prorated amount based on the month end balance.

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Auditor of State Comment from Report on Accounting Methods:

- The School District has an investment policy that is not signed and dated by the Board, Treasurer or entities conducting investment business with the Treasurer or the Board. The investment policy should be signed and dated by the Board, the Treasurer and entities conducting investment business with the Treasurer or the Board as prescribed in Section 135.14(O)(1).

In Process of Implementation:

The Treasurer and Board have signed and dated the investment policy; however, no financial institutions conducting investment business with the Treasurer have signed the investment policy.

Auditor of State Comment from Report on Accounting Methods:

- The School District needs a policy on how change funds are to be issued and used. The Board should pass an annual petty cash resolution to authorize the establishment of cash funds.

In Process of Implementation:

The School District has not established a policy on how change funds are to be issued and used. Resolution 3.6 was approved at the January 10, 2008 Board meeting, authorizing the Treasurer to issue checks for change as needed in food service, athletics and by building. It also authorized the Treasurer to administer petty cash funds at the building level. The annual resolution should include the amount to be authorized for each department or building.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not have an agreement securing deposits that meets the FIRREA requirements.

Not Implemented:

The School District has contacted their banks; banks are not aware of the FIRREA requirements.

Recording Official Proceedings

Auditor of State Comment from Report on Accounting Methods:

- The minutes should be signed immediately following the meeting at which they are approved. Both the President of the Board of Education and the Treasurer should sign the minutes. The Board minutes are not always signed by the President of the Board when approved at each meeting.

Implemented:

The minutes are printed within two weeks after the Board meeting in which they are approved so any corrections can be made. The Treasurer signs them immediately and the Board president signs them before the next Board meeting.

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Recent Audit Report and Compliance and Management Letters

In addition to reviewing the actions taken to address the issues identified in the Accounting Report and before releasing a school district from fiscal emergency, the Auditor of State reviews the current audit report to determine if there are deficiencies in the school district's financial reporting or any significant failures to comply with the requirements of the Ohio Revised Code.

The Auditor of State released an audit report on the School District's financial Statements for the fiscal year ended June 30, 2007 on March 6, 2008. The report expressed a qualified opinion of the financial statements because of the inadequate accounting records supporting the amounts reported for capital assets net of accumulated depreciation, depreciation expense, and the amount for invested in capital assets net of related debt. This issued has existed in the audit reports for fiscal years 2005, 2006, and 2007. The School District entered into a contract with Industrial Appraisal on July 26, 2007 to perform a complete physical inventory of all capital assets. Industrial Appraisal completed field work in March 2008, which involved listing all assets of the School District at each facility of the School District. The new inventory of capital assets is to be supplied to the Treasurer by May 30, 2008 and will be loaded into the School District's capital asset accounting software. It is the School District's expectation that the updated inventory of capital assets and the reports to be generated by the capital asset accounting software will eliminate the qualification of the opinion on the School District's financial statements for the fiscal year ending June 30, 2008.

As part of the audit report, the School District receives two letters on legal compliance and related internal controls and a management letter. These documents disclosed non-compliance issues with State laws, regulations, contracts, and grant requirements and issues that could have a material affect on the financial statements. The letters for 2007 identified instances of non-compliance with Ohio Budgetary law and the failure to retain records needed to substantiate financial statement amounts. The continued existence of these conditions could influence the decision of the Auditor of State to terminate the fiscal emergency status of the School District. The School District, however, has corrected, or is in the process of correcting, these items and, therefore, the Auditor of State has concluded that the disclosures in the audit report do not require that the School District's release from fiscal emergency be delayed.

Section 2 - Fiscal Emergency Conditions

The Auditor of State shall issue an order, under Section 3316.03, Revised Code, declaring a school district to be in a state of fiscal emergency if the Auditor of State determines that a school district meets any of the criteria for fiscal emergency. The criteria are as follows:

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.
2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.

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3. The Superintendent of Public Instruction has reported to the Auditor of State that the school district is not materially complying with the provision of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.
4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,
5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

In order to be released from fiscal emergency, a school district must have corrected or eliminated the fiscal emergency conditions that existed at the time of the emergency declaration and no new emergency conditions may have occurred.

The results of our analysis of the fiscal emergency conditions are as follows:

1. The School District no longer has an operating deficit in the general fund.
2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.
3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.
4. The examination of the School District's five-year forecast includes a non adverse opinion rendered by the Auditor of State.

Section 3 - Financial Recovery Plan

We obtained and reviewed a copy of the latest financial recovery plan of the School District, dated August 23, 2005. The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan, which were confirmed by us. The key provisions of the financial plan are as follows:

1. Staff from the Ohio Department of Education, in conjunction with the School District Administrative staff, is to prepare a School District staffing analysis.
2. The School District will request a solvency assistance advance.

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3. The Board and the Commission will consider the Auditor of State recommendations included in the updated Performance Audit.
4. The School District will make personnel reductions.

Actions taken to achieve the provisions of the plan include the following:

1. The School District requested a solvency assistance fund advance in the amount of \$3,253,000.
2. The School District had expenditure reductions in fiscal year 2005 totaling \$491,000.
3. A one percent income tax was approved by voters in May 2005.
4. One elementary building was closed and staff reductions were made in fiscal year 2006 totaling \$2,395,000.

Management's total estimated minimum expenditure reductions for fiscal years 2005 through 2007, once all provisions had been implemented, were approximately \$2,880,000.

Section 4 - Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2008 through 2012, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School Districts' five year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the five-year period ending June 30, 2012. The Auditor of State, in a report dated April 4, 2008, rendered a "nonadverse" opinion on the financial forecast.

Section 5 - Conclusion

Based on our review, the Auditor of State has determined the following:

1. The School District has adopted and implemented, or is in the process of implementing, an effective accounting and reporting system; however, the Auditor of State will monitor progress to insure full implementation within a two year period.
2. The School District has corrected or eliminated all the fiscal emergency conditions, no new conditions have occurred, and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency during the forecast period.
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is "nonadverse".

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Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the Shelby City School District and its functions may be terminated.

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

APPENDIX A

Shelby City School District
Richland County, Ohio

Financial Forecast

For the Fiscal Years Ending June 30, 2008 through June 30, 2012

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Fiscal Emergency Termination

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Mary Taylor, CPA

Auditor of State

Board of Education
Shelby City School District
25 High School Avenue
P.O. Box 31
Shelby, OH 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 years ending June 30, 2008 through 2012. 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 the Shelby City School District for the fiscal years ended June 30, 2005, 2006 and 2007 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. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

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

Mary Taylor, CPA
Auditor of State

April 4, 2008

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Shelby City School District

Richland County

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2005 Through 2007 Actual;
For the Fiscal Years Ending June 30, 2008 Through 2012 Forecasted
General Fund

	Fiscal Year <u>2005 Actual</u>	Fiscal Year <u>2006 Actual</u>	Fiscal Year <u>2007 Actual</u>	Fiscal Year <u>2008 Forecasted</u>
Revenues				
General Property Tax	\$3,983,000	\$4,771,000	\$4,686,000	\$5,093,000
Tangible Personal Property Tax	1,916,000	1,985,000	1,490,000	1,180,000
Income Tax	0	157,000	1,600,000	2,415,000
Unrestricted Grants-in-Aid	7,054,000	7,448,000	8,058,000	7,909,000
Restricted Grants-in-Aid	102,000	84,000	125,000	59,000
Property Tax Allocation	723,000	758,000	1,018,000	1,180,000
All Other Revenues	680,000	721,000	806,000	874,000
<i>Total Revenues</i>	<u>14,458,000</u>	<u>15,924,000</u>	<u>17,783,000</u>	<u>18,710,000</u>
Other Financing Sources				
Proceeds from Sale of Notes	1,992,000	1,000,000	0	0
Solvency Assistance Advance	3,253,000	0	0	0
Insurance Proceeds	0	0	0	1,072,000
Advances In	0	340,000	275,000	10,000
Operating Transfers In	159,000	0	0	160,000
<i>Total Other Financing Sources</i>	<u>5,404,000</u>	<u>1,340,000</u>	<u>275,000</u>	<u>1,242,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>19,862,000</u>	<u>17,264,000</u>	<u>18,058,000</u>	<u>19,952,000</u>
Expenditures				
Personal Services	10,248,000	9,240,000	9,255,000	9,469,000
Employees' Retirement/Insurance Benefits	4,415,000	4,294,000	4,190,000	4,557,000
Purchased Services	1,126,000	1,441,000	1,543,000	1,446,000
Supplies and Materials	421,000	226,000	325,000	400,000
Capital Outlay	151,000	3,000	60,000	1,001,000
Debt Service:				
Principal - Tax Anticipation Notes	1,992,000	0	170,000	195,000
Principal - Solvency Assistance Advance	0	1,627,000	1,640,000	0
Principal - Energy Conservation Notes	105,000	105,000	105,000	105,000
Principal - Bankruptcy Loan	0	0	79,000	79,000
Interest	82,000	79,000	64,000	64,000
Other Objects	288,000	293,000	507,000	685,000
<i>Total Expenditures</i>	<u>18,828,000</u>	<u>17,308,000</u>	<u>17,938,000</u>	<u>18,001,000</u>
Other Financing Uses				
Operating Transfers Out	266,000	0	0	0
Advances Out	537,000	275,000	10,000	10,000
<i>Total Other Financing Uses</i>	<u>803,000</u>	<u>275,000</u>	<u>10,000</u>	<u>10,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>19,631,000</u>	<u>17,583,000</u>	<u>17,948,000</u>	<u>18,011,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	231,000	(319,000)	110,000	1,941,000
Cash Balance July 1	873,000	1,104,000	785,000	895,000
Cash Balance June 30	1,104,000	785,000	895,000	2,836,000
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	483,000	266,000	122,000	150,000
Reservations of Fund Balance for:				
Bus Purchase	1,000	14,000	13,000	25,000
Total Encumbrances and Reserves of Fund Balance	<u>484,000</u>	<u>280,000</u>	<u>135,000</u>	<u>175,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$620,000</u>	<u>\$505,000</u>	<u>\$760,000</u>	<u>\$2,661,000</u>

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

<u>Fiscal Year</u> <u>2009 Forecasted</u>	<u>Fiscal Year</u> <u>2010 Forecasted</u>	<u>Fiscal Year</u> <u>2011 Forecasted</u>	<u>Fiscal Year</u> <u>2012 Forecasted</u>
\$5,098,000	\$5,171,000	\$5,229,000	\$5,265,000
484,000	25,000	14,000	0
2,362,000	2,362,000	2,362,000	2,362,000
8,248,000	8,415,000	8,628,000	8,730,000
59,000	59,000	59,000	59,000
1,357,000	1,554,000	1,552,000	1,405,000
687,000	671,000	671,000	661,000
<u>18,295,000</u>	<u>18,257,000</u>	<u>18,515,000</u>	<u>18,482,000</u>
0	0	0	0
0	0	0	0
0	0	0	0
10,000	0	0	0
255,000	0	0	0
<u>265,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>18,560,000</u>	<u>18,257,000</u>	<u>18,515,000</u>	<u>18,482,000</u>
9,869,000	9,969,000	10,254,000	10,509,000
4,711,000	5,081,000	5,292,000	5,516,000
1,509,000	1,523,000	1,562,000	1,624,000
536,000	552,000	568,000	585,000
448,000	100,000	173,000	106,000
205,000	210,000	220,000	0
0	0	0	0
105,000	105,000	105,000	105,000
79,000	0	0	0
50,000	36,000	21,000	11,000
678,000	690,000	702,000	715,000
<u>18,190,000</u>	<u>18,266,000</u>	<u>18,897,000</u>	<u>19,171,000</u>
0	0	0	0
0	0	0	0
0	0	0	0
<u>18,190,000</u>	<u>18,266,000</u>	<u>18,897,000</u>	<u>19,171,000</u>
370,000	(9,000)	(382,000)	(689,000)
<u>2,836,000</u>	<u>3,206,000</u>	<u>3,197,000</u>	<u>2,815,000</u>
<u>3,206,000</u>	<u>3,197,000</u>	<u>2,815,000</u>	<u>2,126,000</u>
150,000	150,000	150,000	150,000
37,000	49,000	0	2,000
<u>187,000</u>	<u>199,000</u>	<u>150,000</u>	<u>152,000</u>
<u>\$3,019,000</u>	<u>\$2,998,000</u>	<u>\$2,665,000</u>	<u>\$1,974,000</u>

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

Note 1 – The School District

The Shelby City School District (School District) is located in Richland County and encompasses all of the City of Shelby and the area extending roughly five miles around the City. 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 currently operates four elementary schools, one middle school and one high school. The School District is staffed by 114 non-certified, 146 certificated and 8 administrative personnel who provide services to 2,212 (including open enrollment) 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 4, 2008, 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 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 (non-GAAP) basis 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, 2008 through June 30, 2012

B. - Fund Accounting

The School District maintains its accounting records 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 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 are used to 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 government units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds.

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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.

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.

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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 2007 (the collection year) for real and public utility property taxes represents collections of 2006 taxes (the tax year). Property tax payments received during calendar year 2007 for tangible personal property (other than public utility property) are for calendar year 2007 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 in June against the next fiscal year's 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 request any such advances for fiscal years 2008 through 2012.

The property tax revenues for the general fund are generated from several levies. The current levies being collected for the General Fund, the year approved, last year of collection, and the full tax rate are as follows:

<u>Tax Levies</u>	<u>Year Approved</u>	<u>Last Calendar Year of Collection</u>	<u>Full Tax Rate (per \$1,000 of assessed valuation)</u>
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	\$5.20
Continuing Operating	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
Five Year Emergency	2007	2012	4.30
Total Tax Rate			<u>\$47.80</u>

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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 rate is \$49.80 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of 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 \$24.32 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$31.12 per \$1,000 of assessed valuation for collection year 2008.

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, HB 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of 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 is based upon anticipated increases in assessed valuations and existing tax levies. The anticipated assessed valuations take into account increases from reappraisals and updates that will occur during the forecast in fiscal year 2009 (update) and 2012 (reappraisal) and increases in assessed valuations from new construction of two new housing developments.

In tax years 2008 and 2011, the Richland County Auditor will perform a triennial revaluation and a sexennial reappraisal of real property, respectively, which should increase assessed valuations. Due to reduction factors, this increase in assessed valuation will only generate an increase from the levy that is inside the 10 mill limitation.

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 23 percent 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.

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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, annually, 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). The decrease in revenue during fiscal years 2007 through 2011 is a result of the tax changes above.

B. – Income Tax

On May 3, 2005, the voters approved a one percent income tax that became effective on January 1, 2006 and is estimated to generate a minimum of \$2,200,000, annually. The tax is levied on the earned income of the residents of the Shelby City School District. The Ohio Department of Taxation collects the taxes on behalf of the School District and remits the taxes quarterly in April, July, October, and January, net of estimated refunds. The July settlement, which includes payments from the annual tax returns due April 15, is the largest settlement each year.

The increase in the income tax revenue from fiscal year 2006 to fiscal year 2008 is due to the timing in collection of the tax and distribution of the tax proceeds by the Ohio Department of Taxation. The forecasted amounts for fiscal years 2009 through 2012 are based on a stable unemployment rate for the County and no projected increase in the earned income of residents.

C. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid include State Foundation payments. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, building blocks, intervention revenues and transportation. Other programs such as 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, less the equivalent of 23 mills times the school district's taxable property valuation. In prior years, the per pupil foundation amount was increased by a regional cost of doing business factor. The cost of doing business factor was phased out over three years beginning in fiscal year 2006. The per pupil foundation level is set by the State Legislature. Historically, the per pupil amount has increased 2.2 percent since 2005. For fiscal years 2008 and 2009, State Legislature has increased per pupil funding by 3 percent each fiscal year. The School District anticipates the per pupil amount to increase 3 percent each fiscal year after fiscal year 2009. The per pupil foundation levels for fiscal years 2005 through 2009 are as follows:

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

Fiscal Year	Per Pupil Foundation Level
2005	\$5,169
2006	5,283
2007	5,403
2008	5,565
2009	5,732

The anticipated unrestricted grants-in-aid for fiscal year 2008 are based on current estimates available from the Ohio Department of Education. The most recent estimates for fiscal year 2008 and the anticipated amounts for the next four fiscal years are as follows:

	Forecasted				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Formula Aid	\$5,645,000	\$6,335,000	\$6,559,000	\$6,771,000	\$6,871,000
Categorical Funding	704,000	650,000	652,000	653,000	655,000
Transportation	418,000	418,000	418,000	418,000	418,000
Excess Cost Supplement	40,000	59,000	0	0	0
Parity Aid	786,000	786,000	786,000	786,000	786,000
Transitional Aid Guarantee	316,000	0	0	0	0
Totals	\$7,909,000	\$8,248,000	\$8,415,000	\$8,628,000	\$8,730,000

For fiscal year 2008, formula aid is expected to decrease from the previous fiscal year due to a decrease in ADM amount. For fiscal years 2009 through 2012, formula aid is anticipated to increase steadily due to anticipated per pupil funding amounts partially offset by small decreases in ADM.

Categorical funding increased due to increases in special education and gifted aid. No increases are anticipated in either the transportation or parity aid line items for the remainder of the forecast period due to a fairly stable student population.

The excess cost supplement aid establishes a 3.3 mill limit on the School District's share of combined funding for special education, vocational education and transportation. If the assumed local share of special and vocational weighted aid plus the assumed local share of transportation exceeds 3.3 mills times the School District's recognized valuation, the State pays the difference in excess cost supplement aid. The School District does not anticipate receiving excess cost supplement aid after fiscal year 2009.

Transitional aid guarantee is anticipated in fiscal year 2008. This money is used for the sole purpose of raising the funding up to the prior fiscal year's level. For fiscal years 2009 through 2012, the anticipated State funding will exceed the previous fiscal year's amount without the guarantee.

Shelby City School District

Richland County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

D. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance. For fiscal year 2008, the School District anticipates \$12,000 in bus purchase allowance, \$40,000 in career tech monies and \$7,000 in Poverty Based Assistance monies which replaced the DPIA program. For fiscal years 2009 through 2012, the School District anticipates total restricted grants-in-aid to be consistent with fiscal year 2008 due to a fairly stable student population.

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 tax year 2005, the State eliminated the ten percent rollback on commercial and industrial real property and the corresponding reimbursement to local governments. This change decreased property tax allocation and increased the collection of property taxes on commercial and industrial property. The increases in fiscal years 2008 through 2012 in homestead and rollback revenue is due to the forecasted increases in general property taxes.

Beginning in tax collection year 2008, the State granted an additional homestead and rollback exemption for the first \$25,000 in market value. This new exemption will increase property tax allocation receipts and decrease general property tax receipts by an equal amount. No increase in property tax allocation or decrease in general property taxes has been included because the amount cannot yet be determined.

The State exempts the first \$10,000 in general business personal property from taxation and reimburses the School District for the lost revenue. In 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period has been accelerated. The last reimbursement 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 and are identified as Utility Deregulation payments. The reimbursements are phased out starting in 2007 and ending in 2016. In fiscal year 2008, the School District received an excess distribution of the consumption taxes. The excess distribution is recorded solely to the general fund and is anticipated each year during the forecast.

In fiscal year 2006, the State began reimbursing 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, beginning in fiscal year 2012, the reimbursements are gradually 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 are implemented. For the forecast period, the School District anticipates receiving a steadily increasing reimbursement for the tangible personal property tax phase out until 2012 when the amount begins to decline, due to a phase out of the tangible personal property loss reimbursement beginning in that fiscal year.

Shelby City School District

Richland County

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Property tax allocation revenues consist of the following:

Revenue Sources	Forecasted				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Homestead and Rollback	\$535,000	\$545,000	\$556,000	\$566,000	\$573,000
Tangible Personal					
Property Exemption	22,000	0	0	0	0
Utility Deregulation	134,000	134,000	134,000	134,000	134,000
Tangible Personal Property					
Loss Reimbursements	489,000	678,000	864,000	852,000	698,000
Totals	<u>\$1,180,000</u>	<u>\$1,357,000</u>	<u>\$1,554,000</u>	<u>\$1,552,000</u>	<u>\$1,405,000</u>

F. - All Other Revenues

All other revenues include open enrollment, extracurricular transportation, interest on investments, miscellaneous fees, rentals, abatements, other revenue, and the refund of prior year expenditures.

The School District receives open enrollment tuition for students who reside in another School District and attend the Shelby City School District. Open enrollment revenue is expected to remain consistent with fiscal year 2007 for fiscal year 2008, then increase in fiscal year 2009 based on an anticipated increase in per pupil funding. Fiscal years 2010 through 2012 are anticipated to remain consistent with the amount projected for fiscal year 2009 since the number of students taking advantage of open enrollment remains fairly consistent each year.

Extracurricular transportation is anticipated to decrease in fiscal year 2008 and then decrease again for fiscal year 2009 based on an average of prior years. Fiscal years 2010 through 2012 are expected to remain consistent with fiscal year 2009.

Interest is based on historical investment practices and 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. Interest in each year of the forecast period is anticipated to remain consistent with the actual interest revenue collected in fiscal year 2007.

The School District receives miscellaneous fees which consist mainly of various transportation fees. These miscellaneous fees are expected to increase slightly from the fiscal year 2007 based on historical trends.

Rental revenues are received by the School District for leasing out building space for the Russell School Community Center and the Ohio Heartland Community Action Commission. The rental revenues are expected to remain consistent throughout the forecast period.

Abatement revenue is received in lieu of property taxes on several properties granted abatements by the City of Shelby and Richland County. Based on the abatement agreements, the amount forecasted for fiscal year 2008 is anticipated to remain consistent with fiscal year 2007; however, the amounts forecasted for fiscal years 2009 through 2012 decrease significantly due to the expiration of a majority of the tax abatements.

Shelby City School District

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

All other revenues consist of the following:

Revenue Sources	Forecast				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Open Enrollment Tuition	\$355,000	\$375,000	\$375,000	\$375,000	\$375,000
Extracurricular Transportation	23,000	13,000	13,000	13,000	13,000
Interest on Investments	170,000	170,000	170,000	170,000	170,000
Miscellaneous Fees	20,000	14,000	14,000	14,000	14,000
Rentals	46,000	46,000	46,000	46,000	46,000
Tax Abatements	208,000	34,000	18,000	18,000	8,000
Other Revenue	22,000	22,000	22,000	22,000	22,000
Refund of Prior Year Expenditures	30,000	13,000	13,000	13,000	13,000
Totals	<u>\$874,000</u>	<u>\$687,000</u>	<u>\$671,000</u>	<u>\$671,000</u>	<u>\$661,000</u>

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 retired over a five 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. 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.

Insurance Proceeds - In fiscal year 2008, the School District is anticipating the receipt of \$1,072,000 in insurance proceeds due to flood damage. In August 2007, the School District experienced extreme flood damage in its buildings.

Advances In - The School District anticipates receiving the return of prior year advances of \$10,000 during fiscal years 2008 and 2009 for advances made to the food service fund in fiscal years 2007 and 2008. No other advances are forecasted.

Transfers In –The School District is anticipating the receipt of \$415,000 from the Federal Emergency Management Agency (FEMA) due to flood damage. \$160,000 is forecasted to be received in fiscal year 2008 with the remainder to be received in fiscal year 2009. This money will be receipted into the FEMA fund, but will be transferred to the general fund which already paid the repair and clean up costs.

Shelby City School District

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, retirement incentive bonuses. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education. General fund staffing levels are as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund:				
Certified	170	144	149	149
Classified	<u>86</u>	<u>69</u>	<u>66</u>	<u>74</u>
Total General Fund:	<u>256</u>	<u>213</u>	<u>215</u>	<u>223</u>
Other Funds:				
Certified	12	6	9	5
Classified	<u>43</u>	<u>39</u>	<u>41</u>	<u>40</u>
Total Other Funds:	<u>55</u>	<u>45</u>	<u>50</u>	<u>45</u>
Totals	<u>311</u>	<u>258</u>	<u>265</u>	<u>268</u>

The School District is not anticipating any significant changes in staffing levels throughout the forecast period.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases. The contract covers the period beginning July 1, 2006 through June 30, 2009, and allows for a two percent increase in the base salary in fiscal years 2008 and 2009 as well as step increases from 2.37 to 4.30 percent depending on years of experience in each year of the contract. The contract for classified staff covers the same period and allows for a two percent increase in base wages as well as step increases ranging from 2.08 to 2.55 percent each year of the contract.

The School District has assumed annual base increases of two percent and step increases similar to the current negotiated agreements for the fiscal years 2010 to 2012 for both its certified and classified employees. These agreements are subject to negotiations and approval by the Board of Education. The likelihood of achieving similar base increases for fiscal years 2010, 2011 and 2012 is unknown and the realization of the forecast is particularly sensitive to any increase in the base salaries. Should the School District agree to an additional one percent increase, it would increase salaries approximately \$282,000 and decrease the fund balance by the same amount over the three year period.

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 and SERS. Certified employees receive one fourth of their unused sick leave not to exceed a total payment of 66 days. Payments to classified employees equal 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. The School District anticipates an increase in severance payments during the 2009 forecast period due to ten employees retiring as compared to six employees retiring in fiscal year 2008. For the remaining years of the forecast, the severance amount is forecasted to decrease due to only three to four employees anticipated to retire each fiscal year.

Shelby City School District

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Summary of Significant Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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. The cost of the incentive is anticipated to be high in 2009 due to the large number of employees retiring and then decrease in fiscal year 2010 due to less employees retiring.

Presented below is a comparison of salaries and wages for fiscal years 2008 through 2012.

	Forecasted				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Certified Salaries	\$7,212,000	\$7,391,000	\$7,532,000	\$7,696,000	\$7,900,000
Classified Salaries	1,665,000	1,722,000	1,796,000	1,874,000	1,954,000
Substitute Salaries	307,000	310,000	310,000	310,000	310,000
Supplemental Contracts	240,000	245,000	250,000	255,000	260,000
Severance Pay/Retirement Incentive	35,000	191,000	71,000	109,000	75,000
Board Member Salaries	10,000	10,000	10,000	10,000	10,000
Totals	<u>\$9,469,000</u>	<u>\$9,869,000</u>	<u>\$9,969,000</u>	<u>\$10,254,000</u>	<u>\$10,509,000</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 14 percent of salaries for STRS, SERS and SERS surcharge. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from a variance in estimates are prorated over the next calendar year. Retirement costs are forecasted to increase based on the increase in forecasted salaries over the next five fiscal years. The School District pays 5 percent of the employee’s retirement contributions for its certified and classified employees.

Hospitalization and prescription drug costs are based on monthly charges per employee set by the Board of Education. Health care charges are fixed for a twelve month period from July to June. All funds are charged for the number of employees participating in the program and the type (single or family) of coverage provided to each employee. The health care program includes medical/surgical, prescription drug, dental care and vision. In fiscal year 2008, health care costs increased 20 percent due to higher claims. In fiscal year 2009, health care charges are expected to increase five percent. For fiscal year 2010, an increase of 11 percent is anticipated and in 2011 and 2012 increases of 5 percent per year are anticipated. The anticipated increases in health care are based on cycles that have historically occurred in the claims of the School District.

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 chooses to pay the entire amount in May. The School District entered a consortium which lowered the workers compensation rate for fiscal year 2008 and the School District does not anticipate any significant changes to the workers’ compensation premiums throughout the forecast period.

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Summary of Significant Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2008 through June 30, 2012

Medicare for the School District is 1.45% of salaries of employees hired after March 31, 1986. In the forecast period, medicare is estimated to increase each year due to an increase in total salaries.

Presented below is a comparison of employees' retirement and insurance for the fiscal years 2008 through 2012:

	Forecasted				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Employer's Retirement	\$1,917,000	\$1,944,000	\$2,006,000	\$2,067,000	\$2,134,000
Health Care/Life Insurance	2,498,000	2,623,000	2,928,000	3,074,000	3,228,000
Workers' Compensation	32,000	32,000	33,000	34,000	35,000
Medicare	110,000	112,000	114,000	117,000	119,000
Totals	<u>\$4,557,000</u>	<u>\$4,711,000</u>	<u>\$5,081,000</u>	<u>\$5,292,000</u>	<u>\$5,516,000</u>

C. - Purchased Services

Presented below is a comparison of purchased service expenditures for fiscal years 2008 through 2012:

	Forecast				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Professional and Technical Services	\$426,000	\$460,000	\$449,000	\$461,000	\$496,000
Property Services	112,000	115,000	118,000	123,000	126,000
Travel and Meeting Expenses	12,000	12,000	12,000	12,000	12,000
Communication Costs	27,000	27,000	27,000	27,000	27,000
Utility Services	380,000	391,000	403,000	415,000	428,000
Tuition and Other Similar Payments	489,000	504,000	514,000	524,000	535,000
Totals	<u>\$1,446,000</u>	<u>\$1,509,000</u>	<u>\$1,523,000</u>	<u>\$1,562,000</u>	<u>\$1,624,000</u>

Professional and technical services are anticipated to vary during the forecast period. Contracts will need to be renegotiated during the forecast period, which increases legal costs in the years of negotiation. Property services are expected to increase each year of the forecast period due to increases in property and liability insurance costs. Utility services are showing gradual increases due to the increased cost to purchase gas, water and electric. Tuition and open enrollment are anticipated to have slight increases throughout the forecast period as a result of increases in the per pupil amount for each student leaving the School District to attend another school.

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

D. - Supplies and Materials

The following table is a comparison of the supplies and materials expenditures for fiscal years 2008 through 2012:

	Forecast				
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
General Supplies, Library Books and Periodicals	\$115,000	\$110,000	\$113,000	\$117,000	\$120,000
Operations, Maintenance and Repair	218,000	260,000	268,000	275,000	284,000
Textbooks	67,000	166,000	171,000	176,000	181,000
Totals	<u>\$400,000</u>	<u>\$536,000</u>	<u>\$552,000</u>	<u>\$568,000</u>	<u>\$585,000</u>

Supplies and materials are forecasted for fiscal year 2008 to increase over fiscal year 2007. This is due to increases in textbook expenditures. In prior years, the School District purchased textbooks from the permanent improvement fund due to limited resources in the general fund. For fiscal years 2009 through 2012, textbooks are anticipated to increase due to increased textbook adoptions and replacement of damaged books.

E. - Capital Outlay

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services is recorded as capital outlay. Capital outlay expenditures consist of minor equipment replacements for the forecast period. The School District anticipates purchasing one new bus in fiscal year 2011 at a cost of approximately \$70,000. Capital outlay expenditures are anticipated to be much higher in fiscal years 2008 and 2009 due to flooding in the School District. Items being repaired or replaced are estimated to cost almost \$1,500,000 and approximately \$1,000,000 will be spent in fiscal year 2008, with the remainder in fiscal year 2009. See Note 15 for more information on the flood.

F. - Debt Service

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 end in fiscal year 2009. 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 general fund property taxes over a fifteen year period.

Shelby City School District

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Summary of Significant Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2008 through June 30, 2012

Principal and interest payments for the debt are as follows:

Fiscal Year	Bankruptcy	Income Tax		Energy	
	Loan	Anticipation Note		Conservation Notes	
	Principal	Principal	Interest	Principal	Interest
2008	\$78,594	\$195,000	\$31,864	\$105,000	\$32,130
2009	78,593	205,000	23,164	105,000	26,775
2010	0	210,000	14,138	105,000	21,420
2011	0	220,000	4,785	105,000	16,065
2012	0	0	0	105,000	10,710
2013-2017	0	0	0	105,000	5,355
Total	\$157,187	\$830,000	\$73,951	\$630,000	\$112,455

G. - Other Objects

Other object expenditures consist of dues and fees, liability insurance and awards. In fiscal year 2008, an increase is anticipated due primarily to increases in the amount paid to the Mid-Ohio Educational Service Center ESC for consultants, increased auditor and treasurer fees and increased income tax collection fees. The School District anticipates these expenditures to decrease in fiscal year 2009, and then gradually increase in fiscal years 2009 to 2012, mainly from higher fees paid to the Mid-Ohio ESC for consultants working in the School District.

H. - Operating Advances/Transfers Out

The School District anticipates no transfers out of the general fund during the forecast period. Advances are only made to cover deficit balances that can be repaid. An advance of \$10,000 is forecast in fiscal year 2008 to cover an expected deficit balance in the food service fund. The School District does not anticipate this advance will be necessary in the remainder of the forecast period because the food service fund is anticipated to have a positive cash balance.

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 are forecasted at \$150,000 for fiscal year 2008. This amount is expected to remain consistent for the remaining forecast period.

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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 capital improvements and repairs. 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.

A. - Textbooks and Instructional Materials Set-Aside

The School District's set-aside requirement is anticipated to range from \$330,000 in fiscal year 2008 to \$371,000 in fiscal year 2012. The School District anticipates qualified expenditures, which include textbooks, instructional supplies, copier costs and technology costs, will exceed the annual set aside requirement each fiscal year. Therefore, the School District does not anticipate having a reserve for the remainder of the forecast period.

B. – Capital Acquisition and Improvements Set-Aside

The School District's set-aside requirement is anticipated to range from \$330,000 in fiscal year 2008 to \$371,000 in fiscal year 2012. An offset is forecasted of over \$300,000 in permanent improvement levy money each year of the forecast. The School District anticipates qualified expenditures and offsets will exceed the annual set aside requirement each year of the forecast period, therefore no reserve is forecasted.

C. – Bus Purchases

At June 30, 2007, the School District had \$13,000 in unspent bus monies. The School District anticipates receiving \$12,000 in a bus purchase allowance during fiscal year of the forecast period. The School District anticipates purchasing a new bus in fiscal year 2011. Therefore, the bus purchase reserve is forecast to increase each fiscal year until fiscal year 2011, when it will be spent.

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

At June 30, 2007, the School District had no unspent Poverty Based assistance monies. For fiscal years 2008 through 2012, the School District anticipates receiving a minimal amount of restricted Poverty Based Assistance monies and spending what is received. Therefore, no reserve for Poverty Based Assistance is forecasted for fiscal years 2008 through 2012.

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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>
May 1997	Emergency	\$950,000	5 Years	Passed
November 2000	Permanent Improvement	2.0 mills	Continuing	Passed
May 2001	Emergency (Renewal)	\$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 (Renewal)	\$950,000	5 Years	Passed

Note 11 – Self-Insurance Fund

The School District provides medical, vision, dental and life insurance benefits through a self-insured 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. A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$75,000 per employee, per year. The School District pays into the internal service fund \$1,233 and \$1,302 for family coverage for certified/classified employees or \$533 and \$563 for single coverage for certified/classified employees per employee per month which represents the entire premium required. The premium is paid monthly by the fund that pays the salary for the employee. Monthly charges per person for single and family participation in the program are recommended by the third party administrator. The School District anticipates the costs of claims to increase throughout the forecast period. The monthly charges to the various funds will also increase to cover the cost of claims and administrative charges and to maintain a positive cash fund balance.

Note 12 – Pending Litigation

The School District currently has no pending litigation.

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 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 Struthers. The Commission’s primary charge is to develop, adopt and implement a financial recovery

Shelby City School District

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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 in accordance with the plan. Based on this report, the operation of the Commission will be terminated.

Note 14 – Other Funds

The School District has numerous other funds that account for resources that are restricted for specific purposes. These funds are anticipated to have sufficient resources to meet their obligations during the forecasted period.

Note 15 – Extraordinary Item

In August 2007, the School District experienced catastrophic flooding to the Middle School, Central School, the Football Stadium, the Gamble Street Technology Center and the Bus Garage. The total cost of items being repaired or replaced is anticipated to be approximately \$1,500,000. The School District anticipates receiving reimbursement from its flood insurance, the inland marine portion of its property insurance and the Federal Emergency Management Agency (FEMA) for all or most of the losses. Approximately \$1,000,000 will be spent on flood repairs and replacements in fiscal year 2008, with the remainder in fiscal year 2009. The School District anticipates receiving \$1,072,000 in insurance proceeds in fiscal year 2008 and additional reimbursements from FEMA of approximately \$160,000 in fiscal year 2008 and \$255,000 in fiscal year 2009.

Shelby City School District

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008 through June 30, 2012

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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 1, 2008**