



**Auditor of State  
Betty Montgomery**

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

**Financial Forecast  
For The Fiscal Year Ending June 30, 2006**

**Local Government Services Section**

Shelby City School District  
Richland County

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**Auditor of State  
Betty Montgomery**

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

and

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

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.03, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Shelby City School District, Richland County, Ohio, and issued a report dated March 24, 2006. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2006 of \$223,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2007 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating surplus may be increased to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2006.

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

Peter R. Sorem  
Chief of Local Government Services

April 27, 2006

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**Auditor of State  
Betty Montgomery**

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures, and changes in fund balance of the general fund of the Shelby City School District for the fiscal year ending June 30, 2006. The Shelby City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of Shelby City School District for the fiscal years ended June 30, 2003, 2004, and 2005 were compiled by us in accordance with the Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

March 24, 2006

SHELBY CITY SCHOOL DISTRICT  
 RICHLAND COUNTY  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE FISCAL YEARS ENDED JUNE 30, 2003 THROUGH 2005 ACTUAL;  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2006 FORECASTED  
 GENERAL FUND

	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Forecasted
<b>Revenues</b>				
General Property Taxes	\$4,189,000	\$5,267,000	\$3,983,000	\$4,790,000
Tangible Personal Property Taxes	3,020,000	2,538,000	1,968,000	2,028,000
Income Tax	0	0	0	122,000
Unrestricted Grants-in-Aid	6,421,000	6,838,000	7,125,000	7,443,000
Restricted Grants-in-Aid	360,000	96,000	102,000	87,000
Property Tax Allocation	584,000	560,000	600,000	643,000
All Other Revenues	122,000	206,000	680,000	727,000
<i>Total Revenues</i>	<u>14,696,000</u>	<u>15,505,000</u>	<u>14,458,000</u>	<u>15,840,000</u>
<b>Other Financing Sources</b>				
Proceeds from Sale of Notes	0	0	1,992,000	1,000,000
Solvency Assistance Advance	0	0	3,253,000	0
Operating Transfers In	0	927,000	159,000	0
Advances In	169,000	196,000	0	341,000
<i>Total Other Financing Sources</i>	<u>169,000</u>	<u>1,123,000</u>	<u>5,404,000</u>	<u>1,341,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>14,865,000</u>	<u>16,628,000</u>	<u>19,862,000</u>	<u>17,181,000</u>
<b>Expenditures</b>				
Personal Services	10,028,000	10,291,000	10,248,000	9,309,000
Employees' Retirement/Insurance Benefits	3,325,000	3,844,000	4,415,000	4,365,000
Purchased Services	931,000	1,185,000	1,126,000	1,329,000
Supplies and Materials	600,000	590,000	417,000	215,000
Capital Outlay	224,000	465,000	151,000	1,000
Debt Service:				
Principal-Notes	0	0	1,992,000	0
Principal-Solvency Assistance Advance	0	0	0	1,627,000
Principal-Energy Conservation Bond	110,000	105,000	105,000	105,000
Interest	59,000	54,000	82,000	79,000
Other Objects	426,000	279,000	288,000	248,000
<i>Total Expenditures</i>	<u>15,703,000</u>	<u>16,813,000</u>	<u>18,824,000</u>	<u>17,278,000</u>
<b>Other Financing Uses</b>				
Operating Transfers Out	92,000	114,000	266,000	0
Advances Out	0	0	537,000	291,000
<i>Total Other Financing Uses</i>	<u>92,000</u>	<u>114,000</u>	<u>803,000</u>	<u>291,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>15,795,000</u>	<u>16,927,000</u>	<u>19,627,000</u>	<u>17,569,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(930,000)	(299,000)	235,000	(388,000)
Cash Balance July 1	<u>2,102,000</u>	<u>1,172,000</u>	<u>873,000</u>	<u>1,108,000</u>
Cash Balance June 30	<u>1,172,000</u>	<u>873,000</u>	<u>1,108,000</u>	<u>720,000</u>
<b>Encumbrances and Reserves:</b>				
Actual/Estimated Encumbrances June 30	1,953,000	619,000	483,000	483,000
Reserves for:				
Budget	462,000	462,000	0	0
Textbooks and Instructional Materials	326,000	0	0	0
Capital Improvements	234,000	0	0	0
Bus Purchase	0	1,000	1,000	14,000
Total Encumbrances and Reserves of Fund Balance	<u>2,975,000</u>	<u>1,082,000</u>	<u>484,000</u>	<u>497,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$1,803,000)</u>	<u>(\$209,000)</u>	<u>\$624,000</u>	<u>\$223,000</u>

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

Shelby City School District  
Richland County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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**Note 1 – The School District**

The Shelby City School District (the School District) is located in Richland County and encompasses all of the City of Shelby. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District operates four elementary schools, one middle school and one high school. The School District is staffed by 66 non-certified and 145 certificated personnel to provide services to 2,251 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Shelby City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of March 24, 2006, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

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

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

**A. - Basis of Accounting**

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

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Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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**B. - Fund Accounting**

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

**Governmental Funds**

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

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

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

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

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

**Proprietary Funds**

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

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

**Fiduciary Funds**

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

**C. - Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations

Shelby City School District  
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Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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

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

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

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

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

**Note 5 - General Operating Assumptions**

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

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

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

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

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 includes amounts levied against all real, public utility real and tangible, and business tangible personal property located in the School District. Property tax revenue received during calendar year 2005 for real and public utility property taxes represents collections of calendar year 2004 taxes. Property tax payments received during calendar year 2005 for tangible personal property (other than public utility property) are for calendar year 2005 taxes. First half calendar year tax

Shelby City School District  
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 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2006

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 calendar year 2006, the State eliminated the ten percent rollback on commercial and industrial property. This change will increase real property taxes collected against commercial and industrial real property and decrease property tax allocation revenue.

The forecast excludes the receipt of any advances against fiscal year 2007 schedule property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating surplus may be increased to the extent advances are received prior to June 30, 2006 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2006.

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

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (Per \$1,000 of Assessed Valuation)
Inside Ten Mill Limitation	n/a	n/a	\$5.20
Continuing Operating	Prior to 1976	n/a	23.00
Continuing Operating	1979	n/a	3.40
Continuing Operating	1985	n/a	3.00
Continuing Operating	1994	n/a	8.90
Emergency	2001	2006	4.00
Total Tax Rate			\$47.50

The School District also has a levy for permanent improvements totaling \$2.00 per \$1,000 of assessed valuation. The School District's total property tax rate is \$49.50 per \$1,000 of assessed valuation.

General Property Tax – The general property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The general property tax revenue estimate is based upon actual receipts and information provided by the Richland County Auditor's office. The forecast, based upon these estimates, anticipates an increase of \$807,000 as compared to the prior fiscal year. The increase is caused by the advance of \$1,000,000 of fiscal year 2005 revenue received and recorded in fiscal year 2004 offset by the payment of a significant delinquency in fiscal year 2005. If the fiscal year 2005 general property tax revenue is adjusted for the advance, then it would be greater than the forecasted general property tax revenue for fiscal year 2006 by \$193,000.

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 levies and debt, increases to 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 property

Shelby City School District  
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For the Fiscal Year Ending June 30, 2006

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and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible 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 plus inside millage (excludes emergency levies) below 20 mills. For the General Fund, the effective residential and agricultural real property tax rate is \$24.00 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$32.23 per \$1,000 of assessed valuation for collection year of 2006.

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 will switch telephone companies from being public utilities to general business taxpayers and phase out the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after 2010 on local and inter-exchange telephone companies. The State of Ohio will reimburse 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).

Tangible Personal Property Tax – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on business inventory, currently at 23 percent, was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

Beginning in 2006, HB 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 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 2004 tangible personal property tax collections, will lose \$2,500,000 when the tangible personal property tax is completely phased out in 2009. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax revenues are based upon information provided by the Richland County Auditor. Based upon these estimates, the School District anticipates an increase of \$60,000 from the previous fiscal year. Tangible personal property tax revenues include the actual settlement for October 2005 and the late June 2005 personal property tax settlement. It excludes the June 2006 personal property tax settlement. Historically, the June personal property tax settlement is not received by the School District until July of the next fiscal year. If necessary, the School District may issue notes in anticipation of the settlement equal to 90 percent of the settlement. The increase in revenue for the forecast period compared to the prior fiscal year is due to large fluctuation in inventory levels offset by reductions in the percentages used to calculate the assessed valuation.

The State exempted the first \$10,000 in tangible personal property from taxation. The State reimburses the City for the lost revenue. Beginning with tax year 2004, the State was phasing out the reimbursement

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Summary of Significant Assumptions and Accounting Policies  
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by 10 percent each year. Under HB 66, the phase out of this reimbursement has been accelerated so that the last reimbursement for this exemption will be in October 2008. The reimbursement is included in tangible personal property tax revenue.

**B. - Income Tax**

On May 3, 2005 the voters approved a one percent income tax that became effective on January 1, 2006, which is estimated to generate \$2,000,000 annually. The tax is levied on the income of the residents of the Shelby City School District. The forecasted amount of \$122,000 for fiscal year 2006 is based on the Ohio Department of Taxation's timeline for receiving school district income tax payments, the estimated percentages for collections per quarter and the amount certified for fiscal year 2006 by the State of Ohio Tax Commissioner.

Under State law, the School District, prior to the first year of collection, may issue notes in anticipation of the income tax revenue to be collected. The School District issued income tax anticipation notes during fiscal year 2006 in the amount of \$1,000,000.

**C. - Unrestricted Grants-in-Aid**

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, and transportation. Other programs such as parity aid, excess cost supplement, and charge-off 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 by multiplying pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature), and then subtracting the equivalent of 23 mills times the school district's taxable property valuation. The regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level has been set by the State Legislature as follows:

Fiscal Year	Per Pupil Foundation Level
2003	\$4,949
2004	5,058
2005	5,169
2006	5,283

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 Richland County  
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 For the Fiscal Year Ending June 30, 2006

The anticipated unrestricted grants-in-aid for fiscal year 2006 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the February school foundation statement for fiscal year 2006 and the amounts for the last three fiscal years are as follows:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
Formula Aid	\$5,313,000	\$5,307,000	\$5,398,000	\$5,590,000	\$192,000
Categorical Funding	523,000	540,000	537,000	629,000	92,000
Transportation	371,000	397,000	404,000	410,000	6,000
Disadvantaged Pupil Impact Aid	10,000	10,000	10,000	0	(10,000)
Parity Aid	0	404,000	568,000	676,000	108,000
Excess Cost Supplement	0	0	33,000	62,000	29,000
Foundation Adjustments	141,000	114,000	104,000	(15,000)	(119,000)
Total Foundation	6,358,000	6,772,000	7,054,000	7,352,000	298,000
Utility Deregulation	63,000	66,000	71,000	91,000	20,000
Total Unrestricted Grants-in-Aid	<u>\$6,421,000</u>	<u>\$6,838,000</u>	<u>\$7,125,000</u>	<u>\$7,443,000</u>	<u>\$318,000</u>

Formula aid is anticipated to increase due to an increase in the per-pupil funding amount and a decrease in recognized valuation offset by a decline in formula ADM of 32. Categorical funding increased due to increases in special education weighted aid. Parity aid continues its phase in with the percentage of the distribution going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and 100 percent on fiscal year 2006.

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

**D. - Restricted Grants-in-Aid**

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance/DPIA monies. For fiscal year 2006, the School District anticipates \$13,000 in bus purchase allowance, \$40,000 in career tech monies and \$35,000 in Poverty Based Assistance monies which replaced the DPIA program. The \$264,000 decrease from fiscal year 2003 to fiscal year 2004 is due to a change in the restriction on how parity aid may be used. In fiscal year 2003, parity aid was considered restricted; however, beginning in fiscal year 2004 it was considered unrestricted.

**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

Shelby City School District  
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 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2006

District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Beginning in 2006, the State eliminated the ten percent rollback credit on commercial and industrial real property and the reimbursement to local governments.

Beginning in fiscal year 2006, the State will reimburse the School District for lost revenue due to the phase out of tangible personal property business 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 HB 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under HB 66. This means the School District is only reimbursed for the difference between the amounts that would have been seen received under the prior law and the amounts actually received as the phase-outs in HB 66 are implemented.

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

Property tax allocation revenue, based on information provided by the Richland County Auditor, is anticipated to increase \$43,000 from fiscal year 2005. This increase is due to the reappraisal of property during 2005.

**F. - All Other Revenues**

Presented below is a comparison of all other revenue for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Variance Increase (Decrease)
Tuition	\$5,000	\$142,000	\$399,000	\$394,000	(\$5,000)
Extracurricular Transportation	8,000	2,000	6,000	3,000	(3,000)
Interest	51,000	13,000	13,000	77,000	64,000
Student Class Fees	36,000	22,000	56,000	7,000	(49,000)
Abatements	0	0	174,000	195,000	21,000
Other	4,000	25,000	22,000	9,000	(13,000)
Refund of Prior Year Expenditures	18,000	2,000	10,000	42,000	32,000
<b>Totals</b>	<b>\$122,000</b>	<b>\$206,000</b>	<b>\$680,000</b>	<b>\$727,000</b>	<b>\$47,000</b>

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

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The decrease in student class fees is due to the fact that class fees are now being receipted into the Uniform School Supplies fund instead of the General fund. The small amount of fees included in the forecast is the new athletic transportation fee that the School District began charging students who participate in a sport.

In fiscal year 2005, the School began receipting abatement revenues in the general fund. Prior to fiscal year 2005, they were receipted into a special revenue fund. Abatement revenue is received in lieu of property taxes on several properties granted abatements by the City and County.

Also in fiscal year 2005, the School District began recording tuition revenue gross rather than netted against the amount the School District pays to other school districts attended by students who reside within the Shelby City School District.

**G. – Other Financing Sources**

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

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

In fiscal year 2004, the School District also transferred the balance of several grant funds to the general fund. The School District gathered information indicating that expenditures were charged to the general fund that should have been charged to the grant funds.

Advances In – During fiscal year 2004, the School District advanced \$196,000 from other funds to the general fund. This advance was repaid during fiscal year 2005. During fiscal year 2005, advances were made for a total of \$341,000 to other School District funds. For fiscal year 2006, those advances are expected to be repaid.

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

**A. - Personal Services**

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

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period July 1, 2003 to June 30, 2006, and allows for a 3.75 increase in the base salary for fiscal year 2006 as well as step increases ranging from 4 to 4.33 percent in each year of the contract.

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Classified staff salaries are based on a negotiated contract which includes base and step increases. The contract covers the period July 1, 2003 to June 30, 2006. It allows for a 3.75 percent increase in the base salary for fiscal year 2006 as well as a step increase of 2.5 percent in each year of the contract.

Although the contracts called for increases to the base salaries, all employees of the School District agreed to a base salary wage freeze for fiscal year 2006. In addition, the School District had a reduction in force of 31 classified positions, a reduction in force and retirements of 16 certified employees, non-renewal of 100 supplemental contracts, and eliminated 24 seasonal help positions, causing a decrease in certified and classified salaries.

Substitute costs are expected to decrease during the forecast period due to an overall decrease in teaching positions where substitutes would be necessary.

The School District offers severance pay upon retirement to its certified and classified employees who are eligible to retire under the provisions set by STRS or SERS. Payments to certified employees are equal to one fourth of their unused sick leave not to exceed a total of 65 days paid. Payments to classified employees are equal to one fourth of the first 160 days of unused sick leave and one third of unused sick leave over 160 days to the maximum of 73 days paid. Severance costs are anticipated to decrease due to the retirement of seven staff members during the forecast period compared with the retirement of ten staff members during fiscal year 2005.

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 their intention to retire by March 1 of the year they first become eligible to retire under STRS. The incentive is equal to two days pay for each year of service to the School District, not to exceed forty-five days.

Presented below is a comparison of salaries and wages for fiscal years 2003, 2004, 2005 and the forecast period.

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Certified Salaries	\$7,451,000	\$7,688,000	\$7,770,000	\$7,021,000	(\$749,000)
Classified Salaries	1,665,000	1,895,000	1,723,000	1,525,000	(198,000)
Substitute Salaries	543,000	344,000	342,000	294,000	(48,000)
Supplemental Contracts	214,000	222,000	217,000	277,000	60,000
Severance Pay	151,000	89,000	152,000	142,000	(10,000)
Retirement Incentive	0	49,000	38,000	44,000	6,000
Other Salaries and Wages	4,000	4,000	6,000	6,000	0
Totals	<u>\$10,028,000</u>	<u>\$10,291,000</u>	<u>\$10,248,000</u>	<u>\$9,309,000</u>	<u>(\$939,000)</u>

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

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

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

Health care costs are based on a monthly premium fixed by the Board based on a recommendation by the third party administrator. The premiums are based on the estimated claims and administrative charges. All funds, including the general fund, are charged a monthly premium for each employee and their type of coverage. The self-insured health care program includes medical/surgical, vision and dental care. The Board pays 90 and 95 percent of the monthly premium for certified and classified employees, respectively. The premiums increased approximately 28 percent in fiscal year 2005 and 2006. The monthly premiums for health insurance are as follows:

Coverage:	Certified		Classified	
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2005	2006	2005	2006
Family	\$751.61	\$962.71	\$793.37	\$1,016.20
Single	327.27	385.09	345.45	406.49

Life insurance premiums for fiscal year 2006 were \$20 per month for \$100,000 of coverage for administrators and all other employees. This is an increase from \$7.60 for the amount paid for all other employees in fiscal year 2005.

Workers’ compensation premiums are calculated on calendar year wages and are either paid in full in May or 45 percent in May and 55 percent in September of the following year. A large decrease is forecasted for fiscal year 2006 due to the School District paying the fiscal year 2004 workers’ compensation premium during fiscal year 2005, along with an increase in the assigned rate offset by a decrease in the 2005 calendar year salaries and wages. The School District did not receive a premium reduction for 2005. In prior fiscal years, the School District received a premium reduction of 50 percent of the premiums paid in fiscal year 2003 and 20 percent in fiscal years 2004 and 2005.

The School District anticipates paying unemployment benefits of \$67,000 during fiscal year 2006 due to the reduction in staff that occurred in fiscal years 2005 and 2006.

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Presented below are the employee's retirement/insurance benefits expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Employer's Retirement	\$1,750,000	\$1,935,000	\$2,083,000	\$1,771,000	(\$312,000)
Health Care/Life Insurance	1,459,000	1,803,000	2,022,000	2,295,000	273,000
Workers' Compensation	20,000	0	192,000	138,000	(54,000)
Medicare	88,000	106,000	105,000	94,000	(11,000)
Unemployment	8,000	0	13,000	67,000	54,000
Totals	<u>\$3,325,000</u>	<u>\$3,844,000</u>	<u>\$4,415,000</u>	<u>\$4,365,000</u>	<u>(\$50,000)</u>

**C. - Purchased Services**

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

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Professional and Technical Services	\$358,000	\$453,000	\$326,000	\$423,000	\$97,000
Property Services	109,000	127,000	120,000	118,000	(2,000)
Travel and Meeting Expenses	57,000	36,000	11,000	10,000	(1,000)
Communication Costs	25,000	31,000	18,000	24,000	6,000
Utility Services	285,000	316,000	331,000	383,000	52,000
Tuition Payments	96,000	221,000	319,000	370,000	51,000
Pupil Transportation	1,000	1,000	1,000	1,000	0
Totals	<u>\$931,000</u>	<u>\$1,185,000</u>	<u>\$1,126,000</u>	<u>\$1,329,000</u>	<u>\$203,000</u>

Professional and technical services include legal fees which are forecast to increase \$97,000 due to the issuance of the Income Tax Anticipation Notes and new negotiated agreements for classified and certificated employees. Utility services are expected to increase due to rising gas and electric costs. Tuition payments are increasing due to more students attending community schools.

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**D. - Supplies and Materials**

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

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
General Supplies	\$296,000	\$303,000	\$121,000	\$41,000	(\$80,000)
Textbooks	29,000	27,000	78,000	0	(78,000)
Library Books	21,000	16,000	14,000	0	(14,000)
Periodical, Newspaper, Film and Filmstrips	6,000	4,000	1,000	0	(1,000)
Food and Related Supplies and Materials	3,000	4,000	1,000	0	(1,000)
Supplies and Materials for Repairs	168,000	137,000	107,000	61,000	(46,000)
Supplies and Materials for Operation	77,000	99,000	95,000	113,000	18,000
Totals	<u>\$600,000</u>	<u>\$590,000</u>	<u>\$417,000</u>	<u>\$215,000</u>	<u>(\$202,000)</u>

In order to cut costs, the School District has limited general supply and maintenance and repair supply purchases to what is absolutely necessary for the current year. No textbooks or library books are being purchased during fiscal year 2006.

**E. - Capital Outlay**

The costs of property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. During fiscal year 2005, the School District purchased a school bus equipped to transport handicapped students. In fiscal year 2006, the School District eliminated virtually all capital expenditures from the general fund. The School District has a permanent improvement fund that generates approximately \$311,000 annually. The School District uses this fund to make most major capital expenditures.

**F. - Debt Service**

The outstanding balances and fiscal year 2006 principal and interest payments for general fund supported debt consists of the following:

Type	Maturity Date	Balance at 6/30/2005	Fiscal Year 2006 Principal Payment	Fiscal Year 2006 Interest Payment
Solvency Assistance Advance	June 30, 2007	\$3,253,000	\$1,627,000	\$36,000
Energy Conservation Bond	June 15, 2013	840,000	105,000	43,000
Total		<u>\$4,093,000</u>	<u>\$1,732,000</u>	<u>\$79,000</u>

During fiscal year 1998, the School District issued energy conservation notes. These notes are being repaid with property taxes over a fifteen year period.

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During fiscal year 2005, the School District received a Solvency Assistance Fund Advance 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.

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.

**G. - Other Objects**

Other object expenditures consist of dues and fees. Other object expenditures are forecasted in the amount of \$248,000. The \$40,000 decrease from fiscal year 2005 is due to a decrease in both auditor fees and election expenses.

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

For fiscal year 2006, no transfers are anticipated. \$291,000 in advances out are anticipated for fiscal year 2006 to supplement the self insurance internal service fund and the Title VI-B special revenue fund. In fiscal year 2005, the general fund advanced \$341,000 to other funds to be repaid in fiscal year 2006. \$196,000 was also advanced out in fiscal year 2005 to repay other funds that had loaned money to the general fund in previous years.

**Note 8 - Encumbrances**

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

Encumbrances for purchased services, supplies and materials, capital outlay and other objects for the fiscal year ended June 30, 2005 were \$483,000 and are forecasted at \$483,000 for June 30, 2006.

**Note 9 - Reservations of Fund Balance**

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

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

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**A. – Budget Reserve**

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish and appropriate money for budget stabilization. The monies on hand in the School District’s budget reserve may, at the discretion of the Board, be returned to the School District’s general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The School District utilized their budget reserve in fiscal year 2004.

**B. – Bus Purchases**

At June 30, 2005, the School District had \$1,000 in unspent bus monies. The School District anticipates receiving \$13,000 in a bus purchase allowance during fiscal year 2006. The School District does not plan on purchasing any buses during the current fiscal year; therefore a \$14,000 reserve for bus purchases is forecasted.

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

At June 30, 2005, the School District had no unspent DPIA monies. The School District anticipates receiving \$35,000 in restricted Poverty Based Assistance monies during fiscal year 2006 and having \$35,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

**Note 10 - Levies**

In the past ten years, the School District has placed several levies on the ballot. The type of levy, millage amount, term and election results are as follows:

Date	Type	Amount	Term	Election Results
March 1, 1996	Permanent Improvement	2.0 mills	5 Years	Passed
May 1997	Emergency	\$950,000	5 Years	Passed
November 2000	Permanent Improvement	2.0 mills	Continuing	Passed
May 2001	Emergency	\$950,000	5 Years	Passed
May 2003	Construction Bond	\$32,500,000	28 Years	Failed
November 2003	Construction Bond	\$21,625,000	28 Years	Failed
May 2005	Income Tax	1 percent	Continuing	Passed

**Note 11 - Pending Litigation**

The Shelby Education Association has filed a case in Richland County Court of Common Pleas which challenges the Commission’s authority to reduce Association members employed at the School District. The case is currently in the discovery phase and the outcome of the case cannot be determined as of the date of the forecast.

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

The School District provides medical/surgical, vision and dental benefits through a self-insurance program. The School District maintains an internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator reviews all claims which are then paid by the School District. The School District pays a monthly premium for each employee into the internal service fund. The premium is paid by the fund that pays the salary for the employee and differs for single and family benefits. Monthly premiums are recommended by the third party administrator and approved by the Board of Education. The fund purchases annual stop loss coverage for claims in excess of \$75,000 per person up to \$1,000,000 per person and for aggregate annual claims in excess of \$1,497,650 up to \$2,497,650. The School District anticipates the costs of claims to increase throughout the fiscal year. The School District anticipates advancing \$281,000 from the general fund to the employee benefits self-insurance fund to alleviate the anticipated deficit in the fund. The School District anticipates the premiums over fiscal year 2007 to be sufficient to cover the claims, administrative costs and repayment of the advance from the general fund.

**Note 13 – Financial Planning and Supervision Commission**

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

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

**Note 14 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2006 through 2010 was filed on November 11, 2005. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The financial plan assumes the continued operation of the School District with \$2,000,000 in new revenue from an income tax levy. The plan also assumes annual step increases and base salary increases, staff reductions, and an increase in health care benefits for the fiscal years 2007 through 2010. An operating deficit of \$848,000 is presented for fiscal year 2007. Operating surpluses are forecast for fiscal years 2008 through 2010.

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



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**SHELBY CITY SCHOOL DISTRICT**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 3, 2006**