

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.

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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.

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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.

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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>

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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.

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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:

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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.

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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.

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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.

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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.

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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.

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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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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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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.

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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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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 2009 using the accumulated allowance. Therefore, the bus purchase reserve is forecast to be zero in 2009 and then to increase each fiscal year until fiscal year 2012, when it will next 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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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

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Struthers. 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 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.

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