



**Auditor of State
Betty Montgomery**

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

Fiscal Emergency Termination

Local Government Services Section

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

Fiscal Emergency Termination

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CERTIFICATION

Pursuant to a request to the Auditor of State by the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission, the Auditor of State certifies that the Sheffield-Sheffield Lake City School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, the objectives of the financial recovery plan are being met, an effective financial accounting and reporting system in accordance with Section 3316.10 of the Revised Code is in the process of being implemented, and it is reasonably expected that this implementation will be completed within two years, and the Board of Education has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be nonadverse. Therefore, the existence of the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission and its role in the operation of the Sheffield-Sheffield Lake City School District is terminated as of May 31, 2006.

Accordingly, this report is hereby submitted to the Sheffield-Sheffield Lake City School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Timothy S. Keen, Director of the Office of Budget and Management, Ronald L. Mantini, Lorain County Auditor, and Susan Tave Zelman, State Superintendent of Public Instruction.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 31, 2006

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Sheffield-Sheffield Lake City School District - Lorain County

Report on Termination of the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission

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

The Declaration of Fiscal Emergency

On March 26, 2004, the Ohio Department of Education declared the Sheffield-Sheffield Lake City School District in fiscal caution due to potential deficits.

The Auditor of State declared the Sheffield-Sheffield Lake City School District in fiscal watch on June 24, 2004 based on the determination of the Department of Education that the School District had not provided an acceptable written proposal for correcting the budgetary conditions that prompted the declaration of fiscal caution and for preventing the School District from experiencing further fiscal difficulties. Upon reviewing the School District's five-year forecast filed with the Department of Education on May 27, 2004, which included a deficit of \$118,000 and \$2,130,000 for the fiscal years ending June 30, 2004 and 2005, respectively, the Auditor of State found the Department of Education's request that the School District be placed in fiscal watch to be reasonable.

On January 11, 2005, the Auditor of State declared the Sheffield-Sheffield Lake City School District in Fiscal Emergency based on the Board of Education's resolution, dated December 13, 2004, which indicated that the Sheffield-Sheffield City School District Board of Education would not be able to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of fiscal emergency made pursuant to Section 3316.03 of the Ohio Revised Code. The result of the emergency declaration was the creation of the Financial Planning and Supervision Commission whose purpose is to direct the School District's return to financial stability.

Termination of Fiscal Emergency

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

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

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

The Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the Sheffield-Sheffield Lake City School District (the School District) and issued an Accounting Report, dated April 20, 2006. The report identified areas where the School District's financial accounting and reporting system were not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

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

Budgetary Process

Implemented:

- *The Treasurer compares appropriations to estimated resources as part of a monthly review; however, this comparison is not documented. The Treasurer should document the comparison of appropriations to estimated resources each time an amended certificate is requested/approved by the County Budget Commission and each time a supplemental appropriation resolution is approved by the Board. The Treasurer should provide the Board with the comparison demonstrating the effect of adopting the supplemental appropriations and that the adoption will not cause a budgetary compliance issue.*

The Treasurer compares appropriations to estimated resources for any possible compliance issues at the end of each month. The Treasurer initials the monthly review sheet as each item is completed.

The Treasurer has not had to make any budget modifications in fiscal year 2006. An appropriations modification worksheet is in place to use each time a budget modification is needed. The worksheet compares the current appropriations to the most recent certificate of estimated resources by fund to ensure there are no violations. This worksheet would be presented with the resolution that is submitted to the Board for approval.

- *The text in the public notice of the budget hearing was not changed from that of the previous year. The Treasurer should proofread the notice before it is sent to the newspaper to assure that current information is used.*

The Treasurer had the proper public notice of the budget hearing published in the newspaper.

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

For fiscal year 2006, the School District's permanent appropriations were adopted by the Board on September 26, 2005. The appropriations were within the amended certificate of estimated resources. The Treasurer is aware of the criteria to be met in order to pass permanent appropriations.

- *Appropriations should be passed at a more detailed level by the Board. An effective budgetary system identifies the major programs, activities and major objects of expenditures.*

For fiscal year 2006, the Board has established the legal level of appropriations at the fund, function, object level for all funds.

In the Process of Implementation:

- *The School District has letterhead that contains the language to certify appropriation measures and qualifying contracts. This document is signed and attached to appropriation resolutions and contracts. It is not always clear what document the certificate was intended to be attached to and the document is not included with all copies. In order to clearly associate the certification with the appropriate document and ensure that it is included with all copies, the appropriate certification language should be incorporated as part of the original qualifying contract or appropriation resolution.*

A certification is incorporated as part of the original appropriation resolution. A certification is attached to qualifying contracts if a certification is not already included as part of the contract. The same language is used in each certification. The School District is submitting the certification to their legal counsel for review.

- *The Board authorized the Treasurer to make transfers and adjust appropriations as part of the year-end closing. The legislative body of a local government may not delegate its authority to establish appropriations. The appropriations process is a function of the legislative authority that must be performed by those specific individuals elected to fulfill that responsibility.*

The Treasurer has moved the June Board meeting to June 26, 2006 to ensure that any necessary transfers or appropriation changes will be approved by the Board, prior to the Treasurer making changes in the system and closing out the year.

- *The School District should update its Policy Manual to include a policy for the budgetary process. The first item is the legal level of control; the level at which the Board will adopt appropriations. Appropriations must be adopted at least at the fund level for all funds. The Board, if it chooses, may require more detail such as some level of function and object or the first digit of object.*

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

The initial allocation and subsequent re-allocations of Board approved appropriations is at the discretion of the Treasurer. There is no control or documentation over the allocations after the initial allocations are made. The policy manual should establish the nature of the control (general fund only or all funds, function and object or all dimension of the account code structure) and the approval process. The Treasurer is to determine the documentation that will demonstrate compliance with the Board policy and establish procedures for the request and approval of the subsequent allocations.

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

The Treasurer and Superintendent are in the process of updating the Policy Manual to include all appropriate budgetary policies. They have received sample policies and procedures from the Ohio School Boards Association and another school district as a guide. The final policies will be submitted to the Board for approval.

Procedures manuals are being reviewed and updated at this time as well and will be discussed and distributed to the appropriate buildings, staff and department heads.

- *The estimated receipts should be posted upon receipt of the amended certificate from the County Auditor and appropriations should be posted in the system upon receipt from the County Auditor of the certificate indicating that appropriations are within estimated resources. The amounts in the system should equal the supporting documents.*

For fiscal year 2006, appropriations are entered into the system after being sent to the County Auditor. The system ties to the appropriations approved by the Board; however, estimated receipts on the system did not agree to the estimated receipts on the September amended certificate of estimated resources due to a posting error for one prior year advance.

- *During fiscal year 2005, the School District had deficit fund balances contrary to Section 5705.10, Revised Code, expenditures plus encumbrances that exceeded the board adopted appropriations contrary to Section 5705.41(B), Revised Code, and appropriations that exceeded estimated resources contrary to Section 5705.39, Revised Code. The Board of Education, Superintendent and Treasurer should attend a workshop or schedule a workshop at the School District for the Board of Education and management that addresses Ohio Budgetary law and the role each has in the budgetary process.*

The Treasurer performs a monthly monitoring process to verify or eliminate any possible violations of expenditures plus encumbrances exceeding appropriations. The appropriations are also compared to the estimated resources to verify or eliminate any possible budgetary violations. Deficit fund balances are also researched to determine the reason for the deficit and what steps are needed to eliminate the deficit.

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At June 30, 2005, the School District had six funds with negative cash balances. As of January 31, 2006, there were nine funds with deficit cash balances. Eight of those funds were reimbursable grant funds where the money must be spent before a reimbursement is received. This timing causes negative balances during the year. The School District does not make advances during the year for grant funds. The necessary advances to grant funds are made at the end of the fiscal year, if needed. The food service fund had a deficit cash balance due to the timing of having to purchase food staples. It is the School District's policy to purchase food in advance to have available for sale for the next two to three months.

The Treasurer explained the budgetary process in detail regarding estimated resources, appropriations, the County Auditor's certification, the Ohio Revised Code guidelines, requirements, and the required filing timelines with the Board at the beginning of the budget cycle. Each Board member was given a packet including a copy of the budget worksheet, the current certified revenues and appropriations, the current cash position report, and detailed explanations of the steps needed to complete budget in a timely manner, directed especially to those who have never been through the budgetary process. In the January 2006 monthly report given to the Board members prior to the meeting, the Treasurer included a brief explanation of the tax budget and each additional item so the Board is informed of the procedures and requirements. This is the normal procedure for all meetings.

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

The School District provided what it believed to be a certified copy of the appropriation resolution based on the guidance of the Ohio School Boards Association (OSBA) to the County Auditor for the permanent appropriations approved on September 26, 2005. The appropriation resolution includes a certification on the last page of the resolution. The School District is consulting their legal counsel to verify the correct method of providing a certified copy of the County Auditor.

Not Implemented:

- *The general fund advanced \$38,816 to another fund in fiscal year 2005. When the Treasurer certified the ending fund balances to the County on the Certificate of the Total Amount from all Sources Available for Expenditures, and Balances, the amount was included in the advances not repaid column for the general fund but not for the fund receiving the advance. If an advance is outstanding at the end of the fiscal year, the fund that made the advance should have a positive amount in the advances not repaid column (cash is owed to that fund from another fund) and the fund that received the advance would have a negative amount in the advances not repaid column (the fund owes cash to another fund).*

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Revenue Activity

Implemented:

- *Pay-ins are a form generally used by the Treasurer's office for the receipt of money and posting of receipts to the accounting system. Receipts are generally a document used to substantiate the receipt of money. The various School District buildings use pay-ins instead of receipts. Manual receipts should be used at various buildings. Pay-ins should be only utilized by the Treasurer's office to document the receipt of money from the departments and to post receipts into the system. The School District needs to eliminate "Pay-in Order" from the top right of the forms. The forms should be pre-numbered and controlled.*

All buildings currently have computerized receipts. The designated staff member will enter the receipt of funds into the system based on the pay-in order form completed by the department/advisor. A two-part receipt is printed, the original for the building office and the carbonless copy for the payor (the department/advisor). The computer generated receipt number is entered onto the pay-in order form.

- *The computer system generated receipts are not signed by the Accounts Receivable person. By signing the receipts, the Accounts Receivable person is stating that the information on the receipt has been verified against the documentation. Also, if the receipt is given to a payor, it should be signed by the Accounts Receivable person as proof of receipt of cash.*

The Accounts Receivable clerk signs the receipts.

- *The School District should use a three part deposit slip. The third part should be kept by the School District. If the bank loses the yellow copy that is mailed back to the School District or if the yellow copies are lost in the mail the School District does not have a deposit slip showing what made up that deposit.*

The School District will continue to use a two part carbon deposit slip for all deposits to the bank. The original is sent to the bank with the deposit and the yellow copy is now retained.

- *The adhesive strips with the bag numbers printed on them should be reconciled to the customer log at the end of each day by comparing the numbers on the adhesive strips to the numbers on the customer log to insure that each bag taken has been accounted for.*

All deposits going to the bank are taken by a courier service. The number on the bag is entered into the log by the courier. The signatures of the courier and the Accounts Receivable clerk are required to document the receipt of the bags.

- *The Student Activity Purpose/Goals Statement should be completed with all required signatures and dated.*

As of fiscal year 2006, all Student Activity Purpose/Goals Statements have been properly completed and all appropriate signatures are included.

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- *The building secretaries place the pay-ins, supporting documentation, cash and checks in leather bank bags, zip the bags and send them daily to the Accounts Receivable person in the Administration Building via the inter-office courier. Although the inter-office courier is bonded, the bags should still be locked and the Treasurer's office should have the only other key or keys to the bags. The key or keys should be locked in a secure place in the Treasurer's office after the close of business for the day.*

At this time the School District is comfortable with the current process of using a bonded School District employee to pick up the deposits from the various buildings and deliver them to the Treasurer's Office and will not be spending the additional money to purchase new bags with locks. All bank bags received from the buildings are counted and verified upon receipt by the Accounts Receivables clerk.

The Auditor of State will not pursue implementation of this comment.

- *If a student activity conducts a fund raising event by selling products, the pay-in form from the sale should be compared to the product that was received less the product returned.*

The student activity advisor completes a "Sales Project Potential Form" for each event held at the School District. Once the event is held, the bottom portion of this form is completed to reflect the quantity ordered, the actual sales and a place for any unaccounted units. This form becomes the pay-in documentation, which with the money is sent to the Treasurer's office for deposit.

In the Process of Implementation:

- *The School District does not have written procedures for the receipt of money. The Treasurer should document the procedures to be followed for the receipt and deposit of money and that are necessary to demonstrate compliance with Board policies.*
- *A policy should be implemented by the Board to ensure that discrepancies found while performing reconciliations (for example, ticket sales or lunch sales) would be dealt with in a consistent manner.*

The Treasurer and Superintendent are in the process of updating the Policy Manual to include all appropriate receipt policies. They have received sample policies and procedures from the Ohio School Boards Association and another school district as a guide. The final policies will be submitted to the Board for approval.

Procedures manuals are being reviewed and updated at this time as well and will be discussed and distributed to the appropriate buildings, staff and department heads.

- *The bag numbers should be recorded on the deposit slips.*

A different system is used to courier pay-ins to the Treasurer's office and then to the bank than in previous years. The plastic deposit bags that are taken to the bank are prenumbered and a log is kept to track all deposits going to the bank. At this time the plastic deposit bag numbers are not included on the deposit slips, the School District will take this into consideration as they review procedures.

The Auditor of State will not pursue implementation of this comment.

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Purchasing Process

Implemented:

- *If mileage reimbursements are regular and frequent, the School District should prepare blanket certificates for mileage reimbursements. Blanket certificates are for specific appropriation accounts but not for specific vendors. If mileage reimbursements are irregular and infrequent, it is acceptable to use a then and now certificate.*

The School District now uses blanket purchase orders for mileage reimbursements.

- *The Assistant Treasurer does not verify that vendors have no outstanding, unpaid findings for recovery issued by the Auditor of State. The verification consists of performing a search on the Auditor of State's web site for unresolved findings for recovery. The search results should be printed, reviewed and signed by the Treasurer and attached to the purchase order. If the vendor appears in the unresolved findings for recovery database, the purchase order should not be issued.*

The Treasurer searches the Auditor of State unresolved findings for recovery database for inclusion of any new and large dollar vendors. Large dollar vendors are those with amounts over \$25,000.

- *The Assistant Treasurer prepares purchase orders, assigns numbers to purchase orders, enters them into the system, pays the invoices, and reconciles to the bank. Another employee in the Treasurer's office should assume some of these duties so there is a clear segregation of duties.*

Due to the small size of the office, the separation of duties is limited in nature. However, there is a check-and-balance process in place to prevent and handle any problems should they arise. Other staff members have been trained as back-up if needed, but have their own duties on a daily basis.

The Treasurer compares figures and signs off on the accounts payable summary prior to invoices being paid and reviews and signs off on all bank reconciliations.

- *The Assistant Treasurer should indicate by initialing or signing, any review of unpaid purchase orders and their inquiry with vendors, buildings or departments. Without this verification, it cannot be determined if a review has actually taken place.*

The Assistant Treasurer compares the outstanding purchase orders and invoices at the end of each month as part of the month-end processing. An "Outstanding Purchase Order" form is completed for all purchase orders that are still outstanding or have invoices that have not been marked for approval to pay and then sent to the appropriate departments. The departments are to review the forms, look into the situation and then return the properly approved paperwork for payment.

In the Process of Implementation:

- *The School District should update the Board Policies for purchasing to address the role of the Treasurer and Superintendent, the use of purchase orders, the statutory certifications by the treasurer, the use of quotes from vendors, the dollar limits for blanket certificates (required by statute), and the consequences for failure to obtain the treasurer's certification.*

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The Treasurer and Superintendent are in the process of updating the Policy Manual to include all appropriate purchasing policies. They have received sample policies and procedures from the Ohio School Boards Association and another school district as a guide. The final policies will be submitted to the Board for approval.

Procedures manuals are being reviewed and updated at this time as well and will be discussed and distributed to the appropriate buildings, staff and department heads.

- *Currently, only employees in one building in the School District are preparing and generating requisitions on the system. The School District should use the software feature that allows purchase requisitions to be entered and approved on-line and use the same information to generate purchase orders. This will eliminate the duplication of effort in the process.*

On-line requisitions programs are available in all buildings. The procedures are being reviewed and documented so that training of all departments can be completed to properly utilize this system. The goal is to have the program up and running in all buildings for the fiscal year 2007.

Cash Disbursements

Implemented:

- *All checks over a set dollar amount should be reviewed by the Treasurer after they are electronically signed and before they are mailed. The voucher should also be checked for proper documentation and authorization.*

The Treasurer compares the invoice amounts selected for payment to those listed on the invoice processing reports and signs off on this report prior to printing and mailing the checks. He verifies any payment listed in this report for more than \$1,000, asks questions of the Accounts Payable Clerk and will pull the voucher if needed.

- *All "Issue a Check Forms" should be completed with all the required information and signed by the building principal or supervisor, Superintendent and Treasurer.*

The form is properly completed and signed by the building principal and then signed by the Treasurer upon receipt for approval to pay for the student activity fund, athletics and principals' activities. The superintendent only signs this form if the request is from the general fund. This is not a normal or frequent situation.

In the Process of Implementation:

- *The School District should have the procedures for cash disbursements documented, including the staff positions and their functions. The document should also include procedures for invoices that exceed the purchase order/fiscal officer certification of funds and the use of then-and-now certifications. A copy of these procedures should be kept on file in the Treasurers' office.*

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The Treasurer and Superintendent are in the process of updating the Policy Manual to include all appropriate cash disbursement policies. They have received sample policies and procedures from the Ohio School Boards Association and another school district as a guide. The final policies will be submitted to the Board for approval.

Procedures manuals are being reviewed and updated at this time as well and will be discussed and distributed to the appropriate buildings, staff and department heads.

Not Implemented:

- *The Treasurer receives blanket approval from the Board at the organizational meeting to pay obligations as they come due. The Board cannot grant such approval at the organizational meeting. The Board should comply with Section 3313.18, Revised Code, in granting such authority.*

The School District is seeking guidance in resolving or clarifying this issue. The Auditor of State is reviewing the requirements of Section 3313.18, Revised Code, and will advise the School District in a separate letter how to best comply with this section of law. The School District should also review its practice and seek guidance on how to comply with this code section from its own legal counsel.

Payroll Processing

Implemented:

- *The Treasurer currently does not review and sign off on the Payroll Account Summary report. The Treasurer should be reviewing this report for obvious errors, reasonableness, ghost employees and unusual deductions. The Treasurer should sign the report after reviewing it.*

The Treasurer compares the departmental payroll sheets to the account distribution summary report and then signs off on it prior to checks being printed. This allows him to check for obvious errors, reasonableness and unusual deductions.

- *The Substitute Teacher Report and the extra duty or overtime pay form requires social security numbers. The display of social security numbers on the form leaves the numbers susceptible to theft. The School District should find another way of distinguishing substitutes or identifying the employee.*

The School District will continue to use the social security numbers on the Substitute Teacher Report. The report is completed without the social security number by the department using the substitute and approved at the building level prior to being submitted to the Treasurer's Office for payment. The social security numbers are not entered by the Payroll Clerk until the pay is calculated. The completed forms are kept in a locked cabinet with the other personnel/payroll information. Using employee numbers may be considered at another time but the School District feels it is properly safe-guarding the social security number with the current process.

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In the Process of Implementation:

- *The procedures manual should include the payroll process. The procedures should address the duties, processes, segregation of duties involving the payroll process, and include lost check procedures.*

Procedures manuals are being reviewed and updated at this time as well and will be discussed and distributed to the appropriate buildings, staff and department heads.

- *The same person should not process payroll and reconcile the payroll checking account.*
- *The Treasurer should consider having the payroll clerk reconcile the accounts payable checking account and the accounts payable clerk reconcile the payroll checking account.*

Due to the small size of the office, the separation of duties is limited.

The Treasurer compares totals from the departments and signs off on the payroll account summary prior to paychecks being issued. He will be reviewing and signing off on the payroll bank reconciliations.

Debt Administration

Not Implemented:

- *The debt schedule in the 4502 (Statement M) does not reflect the correct balance. The sum of the amount outstanding end of the fiscal year on the other debt schedules should equal the total principal outstanding on Statement M.*

Capital Assets and Supplies Inventory

Implemented:

- *Capital asset deletions should be authorized by the Board before the items are disposed of and are entered into the computer system.*

Capital asset disposals are presented to the Board for approval and are removed from the accounting system after disposal.

In the Process of Implementation:

- *The School District should adopt a capital assets policy. The policy should address such things as valuing donated assets, assigning salvage values and addressing private property (items belonging to staff and students), establishing the capitalization thresholds, and determining the estimated useful life of an asset.*

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The Treasurer and Superintendent are in the process of updating the Policy Manual to include all appropriate capital asset and supplies inventory policies. They have received sample policies and procedures from another school district as a guide. The final policies will be submitted to the Board for approval.

- *The School District should adopt consumable inventory procedures. The procedures should include a review process to insure that the value assigned to each item is reasonable.*

The new Operations Supervisor is in the process of reviewing and updating the inventory procedures which will be included in the procedures manual.

Not Implemented:

- *Instead of performing a complete inventory every five or six years, a School District representative who does not work in the building or location being inventoried should, at least annually, check that items on the inventory physically exist. This would eliminate the cost of having an outside firm conduct a full inventory and enable the School District to detect lost or stolen assets more timely. The School District should maintain their own inventory.*

The School District's intention is to include a classroom inventory to be completed by the teachers as part of their classroom closing requirements for fiscal year 2006. This will be submitted to the building supervisors for review and then submitted to the Treasurer's office to be incorporated into the capital assets inventory review on a yearly basis.

Cash Management and Investing

Implemented:

- *The Treasurer should review all reconciliation amounts and sign all reconciliations.*

The Treasurer verifies, signs off and dates the bank reconciliations.

- *The signature certification for the StarOhio account at Provident Bank should be updated with the name of the current Treasurer.*

The signature certification for StarOhio was updated on February 14, 2005. The signature certification for First Merit Bank was updated on February 8, 2005.

In the Process of Implementation:

- *The person who prepares the payroll performs the payroll bank account reconciliation and the person who prepares the receipts and deposits and vouchers and checks performs the general account bank reconciliation. There should be a separation of these duties so the same person does not perform all duties related to a process or compensating controls should be added such as having the Treasurer review the bank account reconciliations.*
- *The Treasurer should consider having the payroll clerk reconcile the accounts payable checking account and the accounts payable clerk reconcile the payroll checking account.*

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Due to the small size of the office, the separation of duties is limited in nature. The Treasurer compares the invoices to the accounts payable summary prior to checks being issued and compares the departmental payroll sheets to the payroll account summary prior to checks being issued. The Treasurer verifies figures on the month-end reports to the bank reconciliation support and then signs off on the bank reconciliations.

- *The investment policy should be signed and dated by the Treasurer and Board of Education and all entities conducting investment business with the Treasurer or Board of Education. The investment policy should be filed with the Auditor of State's office.*
- *The petty cash policy should be updated to address the accountability of the money, allowable expenditures, and assignment of a custodian. An annual resolution should set the number of petty cash accounts and the amount in each. All petty cash accounts should be reconciled and returned to the Treasurer's office at the end of the fiscal year.*

The Treasurer and Superintendent are in the process of updating the Policy Manual to include all appropriate cash management and investment policies and petty cash policies. They have received current and sample policies and procedures from the Ohio School Boards Association and another school district as a guide. The final policies will be submitted to the Board for approval.

Not Implemented:

- *The School District does not have a collateral agreement that meets the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) requirements.*

The School Board authorized by motion the Treasurer to renew depository agreements and obtain tax advances as deemed necessary, at its organizational meeting on January 9, 2006. The Board of Education should obtain legal counsel's guidance on its statutory functions that may be delegated.

Financial Reporting

In the Process of Implementation:

- *The Policy Manual should be updated to include the duties of the Treasurer for preparing and filing GAAP basis financial statements within 150 days after the fiscal year end.*

The Treasurer and Superintendent are in the process of updating the comprehensive Policy Manual to include all appropriate financial reporting policies. They have received current and sample policies and procedures from the Ohio School Boards Association and another school district as a guide. The final policies will be submitted to the Board for approval.

Sheffield-Sheffield Lake City School District - Lorain County

Report on Termination of the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission

Recording Official Proceedings

Implemented:

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

The minutes are being signed on a more proper basis. They are usually signed at the next board meeting where they are approved, unless something unexpected happens to prevent it.

- *The minutes of the regular Board meetings state that the Board approved the payment of bills and the financial statements. Since the Board is not given the actual bills or a list of bills to approve and the bills may already have been paid, the Board should eliminate this from the minutes. The minutes refer to exhibits or attachments that are not in the minutes. All exhibits or attachments mentioned in the minutes should be included in the minutes.*

The Board packet received by Board members prior to a Board meeting includes a list of bills paid for the month. The Board members are able to review the list and ask questions at the Board meeting. The minutes have been updated to eliminate the “approval of bills to pay” from the Treasurer’s report. All attachments and exhibits listed in the minutes are being included with the minutes.

Not Implemented:

- *The School District’s minutes do not reflect full and accurate information to permit the public’s understanding and appreciation of the rationale behind the Board of Education’s decisions.*
- *The Supreme Court issued a decision in 2001 that involved a city council’s audio taping of its meeting (State ex rel. Long v. Council of the Village of Cardington, 92 Ohio St. 3d 54; 2001 Ohio 103 (2001)). The Cardington Village Council used audio tapes to supplement the written minutes. The Court criticized that method because (1) the tapes would have to be maintained for the same length of time as the written minutes (not destroyed or taped over after the written minutes are approved) and (2) the taped minutes had inaudible portions and many times the speaker on the tape could not be identified. The Court determined that the written and audio minutes taken together did not constitute full and accurate minutes. It appears a court may find that same with the Sheffield-Sheffield Lake City School District’s method of recording and maintaining minutes.*

The Auditor of State’s Office suggestions to public bodies who want to “tape” their minutes and maintain them as official minutes is to video tape the minutes, make sure all members of the public body have a microphone and to have name placards in front of each. Audio taping, in our opinion, should only be used to aid in the transcribing the minutes into written form. The written minutes are the official minutes and should follow the Supreme Court’s instructions of being full and accurate and stating sufficient facts and information to permit the public to understand and appreciate the rationale behind the public body’s decisions. It is important to note that the taped minutes are also a public record. The Sheffield-Sheffield Lake City School District Treasurer is moving in the right direction by “getting the pertinent discussion information included in the typed minutes” to bring the board minutes in compliance with the Ohio Open Meetings laws.

Sheffield-Sheffield Lake City School District - Lorain County

Report on Termination of the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission

The Fiscal Emergency Conditions

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

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.
2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.
3. The Superintendent of Public Instruction has reported to the Auditor of State that the school district is not materially complying with the provision of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.
4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,
5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

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

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

1. The School District no longer has an operating deficit in the general fund.
2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.
3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.

Sheffield-Sheffield Lake City School District - Lorain County

Report on Termination of the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission

The Financial Recovery Plan

We obtained and reviewed a copy of the latest financial recovery plan of the School District, dated April 13, 2005. The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan which were confirmed by us. The key provisions of the financial plan are as follows:

1. The Commission assumes the power to approve personnel service, employment and collective bargaining contracts.
2. A five-year financial forecast developed by the School District and adopted by the Board and the Commission that establishes the parameters of expenditures versus revenues for the School District.
3. Accessed solvency assistance funds to avoid a fiscal year 2005 deficit that will need to be repaid over the next two years.
4. The Commission shall approve fiscal year 2006 appropriations that are aligned with the five year forecast.
5. The Ohio Department of Education staff, in conjunction with the School District administrative staff, will prepare a District staffing analysis for fiscal year 2006.
6. The Board will pursue passage of both the renewal levy and an additional levy the 2005 calendar year.
7. Ohio Department of Education staff will review all District contracts for appropriate competitive process and compliance to the Financial Recovery Plan.
8. To ensure compliance with the Financial Recovery Plan, the five year forecast and the fiscal year 2006 appropriations, the District must provide monthly reports of receipts, expenditures and encumbrances to be monitored by staff from the Ohio Department of Education.
9. Deviations from the five-year forecast, the Financial Recovery Plan and the fiscal year 2005 appropriations must be approved by the Financial Planning and Supervision Commission of the Sheffield-Sheffield Lake City School District.

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

1. Requested a Solvency Assistance Fund advance in the amount of \$722,000.
2. Obtained voter approval for the renewal of the \$2,300,000, 5 year emergency levy in May 2005.
3. Obtained voter approval of a new \$1,894,000 emergency levy in November 2005.
4. Certified reductions of 19 teaching positions and 1.5 administrative positions will save \$811,000 annually.

Sheffield-Sheffield Lake City School District - Lorain County

Report on Termination of the Sheffield-Sheffield Lake City School District Financial Planning and Supervision Commission

5. Non-certified reductions of 8 positions will save \$74,000 annually.
6. Supplemental contracts reductions will save \$145,000 annually.
7. Energy/purchasing/supplies cost reductions will save \$70,000 annually.

Total minimum reductions for fiscal year 2006 will be \$1,100,000.

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2006 through 2010, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School Districts' five year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the forecasted period through fiscal year 2010. The Auditor of State, in a report dated April 11, 2006, rendered a "nonadverse" opinion on the financial forecast.

Conclusion

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

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

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

It is understood that this report's determination is for the Sheffield-Sheffield Lake City School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Timothy S. Keen, Director of the Office of Budget and Management, Ronald L. Mantini, Lorain County Auditor, and Susan Tave Zelman, State Superintendent of Public Instruction, and others as designed by the Auditor of State, and is not to be used for any other purpose.

Sheffield-Sheffield Lake City School District - Lorain County

**Report on Termination of the Sheffield-Sheffield Lake City School District
Financial Planning and Supervision Commission**

DISCLAIMER

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

APPENDIX A

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

**Financial Forecast
For the Fiscal Years Ending June 30, 2006 through 2010**

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

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**Auditor of State
Betty Montgomery**

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Sheffield-Sheffield Lake City School District for the fiscal years ending June 30, 2006 through 2010. The Sheffield-Sheffield Lake City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 11, 2006

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT, LORAIN COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Fiscal Years Ending June 30, 2003 through 2004 Actual;
 For the Fiscal Years Ending June 30, 2006 through 2010 Forecasted
 General Fund

	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual
Revenues			
General Property Tax	\$6,405,000	\$6,917,000	\$7,235,000
Tangible Personal Property Tax	1,722,000	1,425,000	1,468,000
Unrestricted Grants-in-Aid	5,001,000	5,373,000	5,457,000
Restricted Grants-in-Aid	141,000	71,000	93,000
Property Tax Allocation	886,000	873,000	921,000
All Other Revenues	283,000	536,000	796,000
<i>Total Revenues</i>	<u>14,438,000</u>	<u>15,195,000</u>	<u>15,970,000</u>
Other Financing Sources			
Proceeds of Notes	700,000	0	0
Emergency Levy Note Proceeds	0	920,000	0
State Solvency Assistance	0	0	722,000
Advances In	21,000	0	33,000
Transfers In	0	0	94,000
<i>Total Other Financing Sources</i>	<u>721,000</u>	<u>920,000</u>	<u>849,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>15,159,000</u>	<u>16,115,000</u>	<u>16,819,000</u>
Expenditures			
Personal Services	9,880,000	9,887,000	9,827,000
Employees' Retirement/Insurance Benefits	3,025,000	3,243,000	3,554,000
Purchased Services	1,096,000	1,478,000	1,539,000
Supplies and Materials	270,000	410,000	344,000
Capital Outlay	39,000	131,000	36,000
Debt Service:			
Principal - Tax Anticipation Notes	404,000	700,000	460,000
Principal - Energy Conservation Notes	0	0	84,000
Principal - Solvency Assistance Advance	0	0	0
Interest	0	23,000	31,000
Other Objects	304,000	356,000	318,000
<i>Total Expenditures</i>	<u>15,018,000</u>	<u>16,228,000</u>	<u>16,193,000</u>
Other Financing Uses			
Transfers Out	0	88,000	105,000
Advances Out	0	33,000	39,000
Refund of Prior Year	0	0	5,000
<i>Total Other Financing Uses</i>	<u>0</u>	<u>121,000</u>	<u>149,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>15,018,000</u>	<u>16,349,000</u>	<u>16,342,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	141,000	(234,000)	477,000
Cash Balance July 1	712,000	853,000	619,000
Cash Balance June 30	853,000	619,000	1,096,000
Encumbrances and Reserves:			
Actual/Estimated Encumbrances June 30	243,000	57,000	511,000
Reservations of Fund Balance for:			
Textbooks and Instructional Materials	0	0	0
Capital and Maintenance	166,000	0	0
Bus Purchase	56,000	13,000	0
Disadvantaged Pupil Impact Aid	7,000	7,000	0
Parity Aid	44,000	0	0
<i>Total Encumbrances and Reserves of Fund Balance</i>	<u>516,000</u>	<u>77,000</u>	<u>511,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$337,000</u>	<u>\$542,000</u>	<u>\$585,000</u>

See accompanying summary of significant forecast assumptions and accounting policies

<u>Fiscal Year 2006 Forecasted</u>	<u>Fiscal Year 2007 Forecasted</u>	<u>Fiscal Year 2008 Forecasted</u>	<u>Fiscal Year 2009 Forecasted</u>	<u>Fiscal Year 2010 Forecasted</u>
\$8,480,000	\$9,936,000	\$10,445,000	\$10,954,000	\$11,462,000
1,614,000	733,000	479,000	207,000	0
5,338,000	5,384,000	4,933,000	4,815,000	4,860,000
68,000	68,000	68,000	68,000	68,000
890,000	1,339,000	1,618,000	1,874,000	2,110,000
790,000	813,000	837,000	861,000	886,000
<u>17,180,000</u>	<u>18,273,000</u>	<u>18,380,000</u>	<u>18,779,000</u>	<u>19,386,000</u>
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
39,000	39,000	39,000	39,000	39,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>39,000</u>	<u>39,000</u>	<u>39,000</u>	<u>39,000</u>	<u>39,000</u>
<u>17,219,000</u>	<u>18,312,000</u>	<u>18,419,000</u>	<u>18,818,000</u>	<u>19,425,000</u>
9,497,000	9,940,000	10,421,000	10,911,000	11,425,000
3,529,000	3,880,000	4,401,000	4,981,000	5,573,000
1,728,000	1,780,000	1,833,000	1,888,000	1,945,000
412,000	433,000	454,000	477,000	501,000
75,000	75,000	175,000	75,000	75,000
460,000	0	0	0	0
0	0	0	0	0
361,000	361,000	0	0	0
13,000	0	0	0	0
353,000	360,000	367,000	375,000	382,000
<u>16,428,000</u>	<u>16,829,000</u>	<u>17,651,000</u>	<u>18,707,000</u>	<u>19,901,000</u>
30,000	30,000	30,000	30,000	30,000
39,000	39,000	39,000	39,000	39,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>69,000</u>	<u>69,000</u>	<u>69,000</u>	<u>69,000</u>	<u>69,000</u>
<u>16,497,000</u>	<u>16,898,000</u>	<u>17,720,000</u>	<u>18,776,000</u>	<u>19,970,000</u>
722,000	1,414,000	699,000	42,000	(545,000)
<u>1,096,000</u>	<u>1,818,000</u>	<u>3,232,000</u>	<u>3,931,000</u>	<u>3,973,000</u>
<u>1,818,000</u>	<u>3,232,000</u>	<u>3,931,000</u>	<u>3,973,000</u>	<u>3,428,000</u>
69,000	69,000	69,000	69,000	69,000
0	0	50,000	114,000	166,000
0	0	0	0	0
5,000	10,000	0	5,000	10,000
0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>74,000</u>	<u>79,000</u>	<u>119,000</u>	<u>188,000</u>	<u>245,000</u>
<u>\$1,744,000</u>	<u>\$3,153,000</u>	<u>\$3,812,000</u>	<u>\$3,785,000</u>	<u>\$3,183,000</u>

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

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2006 through 2010**

Note 1 - The School District

The Sheffield-Sheffield Lake City School District (the "School District") is located in Lorain County and encompasses all of the City of Sheffield and the Village of Sheffield Lake. The School District was organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District operates six public schools including one high school, one middle school and four elementary schools. It is staffed by 113 non-certified and 140 certificated personnel who provide services to 1,943 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Sheffield-Sheffield Lake City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the General Fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of April 11, 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 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 Disadvantaged Pupil Impact Aid (DPIA) and the Poverty Based Aid Funds 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 expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

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

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2006 through 2010**

B. Fund Accounting

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

Governmental Funds

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

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

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

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

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 trust funds, investment trust funds, private-purpose trust funds and agency funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary

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

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2006 through 2010**

basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the department, object level for the general fund and at the object level for all other funds.

Budget – A budget of estimated cash receipts and disbursements is submitted to the Lorain County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

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

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

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

Note 5 - General Operating Assumptions

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

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property and tangible personal property used in business. Property taxes are collected for, and distributed to, the school districts in the county by the Lorain 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 Lorain 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.

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

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2006 through 2010**

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 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) are for calendar 2006 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account “property tax allocation”. Beginning in calendar year 2006, the State of Ohio eliminated the ten percent rollback on commercial and industrial property. This change will increase real property taxes collected on commercial and industrial property and decrease property tax allocation revenue.

The forecast excludes the receipt of any advances against the next fiscal year’s schedule property tax settlements in June of each year. 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 2006 through 2010.

The property tax revenues for the School District 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:

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation	n/a	n/a	\$3.76
Continuing Operating	1976	n/a	31.60
Continuing Operating	1993	n/a	7.70
Emergency - Renewal	2005	2010	7.27
Emergency - New	2005	2010	5.99
Total Tax Rate			\$56.32

The School District also has a levy for permanent improvement totaling \$1.00 per \$1,000 of assessed valuation. The School District’s total rate is \$57.32 per \$1,000 of assessed value.

General Property Taxes – General property tax revenue includes real estate taxes and public utility property taxes. The amounts shown in the revenue section of the forecast schedule represent gross property tax revenue. The estimated general property tax revenue for fiscal year 2006 is based upon actual August 2005 and February 2006 settlements. In November 2005, the voters of the School District approved a five-year emergency levy that will generate \$1,894,000 annually. Collections on the levy began January 2006.

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

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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 tax rate and commercial/industrial real property tax rate. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. For the General Fund, the effective residential and agricultural real property rate is \$34.26 per \$1,000 of assessed valuation and the effective commercial and industrial real property rate is \$34.68 per \$1,000 of assessed valuation for collection year 2006.

Public utility real and personal property taxes are collected and settled by the Lorain County Auditor 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 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).

The Lorain County Auditor's will complete a sexennial re-appraisal in calendar year 2006 which will affect the assessed valuations and real estate property tax collections starting in fiscal year 2007 by approximately 6 percent based on the average historical change in values. In fiscal year 2009, the School District will have a triennial revaluation, which should increase assessed valuations and real estate property tax collections in fiscal year 2010. The School District anticipates increases in general property taxes each year of the forecast period because of new construction; however, this revenue is also affected by the following levies:

- In fiscal year 2006, an increase due to a half year's collection from the \$1,894,000 emergency levy passed in November 2005.
- In fiscal year 2007, an increase due to a full year's collection from the \$1,894,000 emergency levy.

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

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tax. The School District, based on the calendar year 2004 tangible personal property tax collections, will lose approximately \$1,400,000 when the tangible personal property tax is completely phased out in 2009. These changes do not affect tangible personal property of public utilities. 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 Revenue below).

The School District anticipates receiving \$1,614,000 in fiscal year 2006, an increase of \$146,000 from the prior fiscal year. The increase compared to the prior fiscal year is due to the passage of the emergency levy in November 2005 and the receipt of delinquent taxes, offset by reductions in the percentages used to calculate the assessed valuation in personal property. The School District anticipates decreases in personal property tax revenue during fiscal years 2007 through 2009 as a result of the tax changes discussed above.

B. Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various categorically aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as parity aid and charge-off supplement are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation. The regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level has been set by State legislature as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$4,949
2004	5,058
2005	5,169
2006	5,283

The base cost per pupil for fiscal years 2007 through 2010 is yet to be set by the Ohio General Assembly. The School District anticipates a two percent increase based on historical increases for fiscal years 2007 through 2010.

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Presented below is a comparison of unrestricted grants-in-aid for fiscal years 2006 through 2010.

	Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Formula Aid	\$3,365,000	\$3,510,000	\$3,059,000	\$2,941,000	\$2,986,000
Categorical Funding	533,000	533,000	533,000	533,000	533,000
Transportation	259,000	259,000	259,000	259,000	259,000
Transitional Aid Guarantee	1,072,000	1,072,000	1,072,000	1,072,000	1,072,000
Foundation Adjustments	10,000	10,000	10,000	10,000	10,000
Total Foundation	5,239,000	5,384,000	4,933,000	4,815,000	4,860,000
Utility Deregulation	99,000	0	0	0	0
Total Unrestricted Grants-in-Aid	<u>\$5,338,000</u>	<u>\$5,384,000</u>	<u>\$4,933,000</u>	<u>\$4,815,000</u>	<u>\$4,860,000</u>

Formula aid is based on ADM, a per pupil funding level, add on blocks, a cost of doing business factor, and a deduction equal to 23 mills times the recognized assessed valuation of property within the School District. Formula Aid will decrease due to anticipated decreases in ADM, increases in the School District's recognized valuation, offset by increases in the per pupil foundation level and add on building blocks. While ADM has decreased in the current and prior years, the School District anticipates the ADM to hold at 1,800 for the remainder of the forecast period because of the improved financial condition of the School District and other anticipated changes within the community. The add-on building blocks add \$40 per pupil in fiscal year 2006 and \$48 per pupil in fiscal years 2007. The School District anticipates the building blocks to continue at their present rate through 2010. Also contributing to the decrease in formula aid is the phase out of the cost of doing business factor which increased the per pupil amount by approximately five percent in fiscal years 2003 through 2005. The cost of doing business factor was reduced by one-third in fiscal year 2006, and will be reduced by another one-third for fiscal year 2007 and eliminated in fiscal year 2008.

During the forecast period, the School District will receive a transitional aid guarantee to ease the impact of the many changes made in the basic aid formula. The transitional aid guarantee is anticipated to remain the same through fiscal year 2010.

Categorical funding increased in fiscal year 2006 due to an increase in the funding level for special education, offset by a decrease in the number of units and is anticipated to remain at fiscal year 2006 levels for the remainder of the forecast.

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. Beginning in fiscal year 2007, this revenue will be recorded in the Property Tax Allocation account.

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C. 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 \$5,000 in bus purchase allowance monies, \$15,000 in career tech monies, \$20,000 in catastrophic aid monies and \$28,000 in poverty based assistance monies. A \$25,000 decrease is anticipated from the prior fiscal year due primarily to the School District receiving less career tech monies from the State. Catastrophic aid monies are related to costs for special needs children and the School District anticipates these funds will continue as that part of their enrollment population continues to grow. These revenues are expected to remain consistent over the forecast period at \$68,000.

D. Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. 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 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 assessment values under prior law and the assessment values under HB 66. This means the School District is only reimbursed for the difference between prior law and the phase-outs in HB 66.

For fiscal year 2006, property tax allocation revenue is anticipated to increase due to the passage of the emergency levy. The School District anticipates increases in property tax allocation each year of the forecast period because of new construction, higher assessed valuations and the reimbursements for lost revenues due to the phase out of tangible personal business property tax.

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

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F. All Other Revenues

Presented below is a comparison of all other revenues for the forecast period:

Revenue Sources	Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Tuition	\$184,000	\$190,000	\$195,000	\$203,000	\$209,000
Open Enrollment	492,000	492,000	508,000	522,000	538,000
Interest on Investments	50,000	65,000	68,000	70,000	73,000
Classroom Materials and Fees	16,000	18,000	18,000	18,000	18,000
Rentals	1,000	1,000	1,000	1,000	1,000
Abatement	25,000	25,000	25,000	25,000	25,000
Miscellaneous	16,000	16,000	16,000	16,000	16,000
Sale of Assets	5,000	5,000	5,000	5,000	5,000
Refund of Prior Year Expenditures	1,000	1,000	1,000	1,000	1,000
Totals	\$790,000	\$813,000	\$837,000	\$861,000	\$886,000

The School District receives tuition from other school districts whose students attend the Sheffield-Sheffield Lake City School District, as well as open enrollment. The School District expects the open enrollment revenues to have an average of a three percent increase each year of the forecasted period.

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

The Village of Sheffield and Old Castle, Inc. have agreed to a tax abatement for the company of 60 percent and Old Castle will in turn give the Sheffield-Sheffield Lake \$25,000 per year. This agreement for \$250,000 to be paid to the School District commenced in 2005 and will not extend past 2014. For forecast purposes it is included in Other Revenues.

G. Other Financing Sources

Advances In - During fiscal year 2005, advances were made for a total of \$33,000 to other School District funds mainly to cover negative cash balances due to the timing of grant funding. For fiscal year 2006, those advances are expected to be repaid along with some additional advances to be made at year end, therefore advances in has been forecasted for \$39,000. The School District anticipates having to advance monies at the end of each fiscal year due to the timing of grant funding reimbursements.

Solvency Assistance Advance - During fiscal year 2005, the School District received \$722,000 in a State solvency assistance advance. The advance will be repaid without interest over two fiscal years beginning in fiscal year 2006 using the School District's foundation money.

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Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance and overtime. All employees receive their compensation on a bi-weekly basis. Staffing levels increased from 224 in fiscal year 2004 to 232 in fiscal year 2005 and decreased to 222 in fiscal year 2006.

Certified (teacher) staff salaries are based on an expired negotiated contract that included base and step increases for existing staff. The expired contract covered January 2004 to February 2005 and remains in effect until negotiations for a new contract are completed. The continuation of the contract allows for step increases of 3 percent effective January 1, 2006. Base salary increases for 2003 through 2004 were 3.0 percent and 1.5 percent. For fiscal year 2005 and 2006 there was a base salary freeze. For fiscal years 2007 to 2010, the School District anticipates base increases of 2 percent and step increases of 3 percent.

The contract for classified staff covers the period of July 1, 2005 through June 30, 2006. The contract allows for a 2.75 percent increase in base salaries and approximately two percent step increase for fiscal year 2006. A two percent base increase and a three percent step increase are anticipated for fiscal years 2007 through 2010.

Administrative and non-bargaining unit salaries are set by the Board of Education. Administrative and non-bargaining unit salaries are anticipated to receive similar increases as the bargaining unit members.

For fiscal year 2006, the School District had a reduction in force of 28.5 positions to implement. Prior to the end of fiscal year 2005, the School District received eighteen resignations and six retirements. In addition, 8 classified staff positions and 1.5 administration positions were eliminated under the reduction plan. The reduction in force, resignations, and retirements reduced the total staff positions by 33.5; however, some of the positions that were vacant were filled by newly hired personnel at smaller salaries. The net effect was a reduction of ten staff members. The forecast assumes that staff levels will remain at the current level for the forecasted period.

The School District also made cuts in the number of substitutes available for use during the year and the per diem rate for those substitutes. They also analyzed the attendance and size of the groups covered by supplemental contracts and reduced the number of supplemental contracts from fiscal year 2005 to fiscal year 2006. An increase is projected in supplemental contract costs in fiscal years 2008 through 2010 in case the School District decides to bring back some supplemental programs that were cut.

The School District offers severance pay to its certified and classified employees with ten years of service with the School District. Payments are 25 percent of their unused sick leave up to a maximum of 70 days paid and is paid in two equal installments. These payments will be made in January and July of the following year.

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Presented below is a comparison of salaries and wages for fiscal years 2006 through 2010.

	Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Certified Salaries	\$6,822,000	\$7,163,000	\$7,521,000	\$7,897,000	\$8,292,000
Classified Salaries	2,074,000	2,178,000	2,287,000	2,401,000	2,520,000
Substitute Salaries	294,000	295,000	295,000	295,000	295,000
Supplemental Contracts	186,000	186,000	200,000	200,000	200,000
Severance Pay	103,000	100,000	100,000	100,000	100,000
Compensation of Board Members	17,000	17,000	17,000	17,000	17,000
Student Workers	1,000	1,000	1,000	1,000	1,000
Totals	\$9,497,000	\$9,940,000	\$10,421,000	\$10,911,000	\$11,425,000

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 of STRS and SERS members. The payments are deducted over the next calendar year from the semi-monthly State foundation settlements based on an estimate of the salaries and wages for the fiscal year submitted to the pension systems in the first quarter of each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. The School District pays a portion of the employee's retirement contributions for the Superintendent and the Treasurer, as stated in their contracts.

The health care program includes medical/surgical, prescription drug and dental care. Health care costs are based on the estimated claims and administrative charges for the School District's self-insured health care program. Contributions are adjusted July 1 of each year based on estimates provided by the plan's administrator. The Board pays approximately 90 percent of the contribution and the employees pay the balance. All funds, including the general fund, are charged for the number of employees participating in the program and the type (single or family) of coverage provided to each employee. Health care premiums for the different policies available to the School District employees increased an average of 19 percent for fiscal year 2006 and are projected to increase on average 20 percent annually over the forecasted period.

Life insurance premiums are based on the coverage terms of the existing contracts, the anticipated number of employees participating in the program and the monthly premiums. Life insurance costs increased nearly 8 percent over the prior fiscal year and are projected to remain consistent over the forecasted period.

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Worker's compensation premiums are based on the School District's rate and the anticipated salaries for the fiscal year. A decrease is forecasted for fiscal year 2006 compared to fiscal year 2005 due to lower salaries due to the reduction in force actions offset by a rate increase for fiscal year 2006. There also was no rebate for fiscal year 2006. In prior years worker's compensation premiums reflected rebates of 75 percent for fiscal year 2003, 50 percent for fiscal year 2004 and 20 percent for fiscal year 2005. Worker's compensation is expected to remain consistent over the forecasted period.

Medicare benefits are based on the employers' rate of 1.45 percent of the payroll costs for contributing staff. Medicare is expected to decrease in fiscal year 2006 due to the reduction in force actions and remain consistent over the forecasted period.

The School District anticipates paying unemployment benefits of \$20,000 during fiscal year 2006, a \$16,000 increase from the prior fiscal year. This increase is due to a reduction in staff that occurred in fiscal year 2005. However, all benefits should be ending by March 2006. For fiscal years 2007 through 2010 an amount is included in case additional staff cuts are needed in the future.

Presented below is a comparison of fiscal years 2006 through 2010:

	Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Employer's Retirement	\$1,331,000	\$1,397,000	\$1,467,000	\$1,596,000	\$1,737,000
Health/Life Insurance	1,973,000	2,267,000	2,718,000	3,169,000	3,620,000
Workers' Compensation	118,000	119,000	119,000	119,000	119,000
Medicare	87,000	87,000	87,000	87,000	87,000
Unemployment	20,000	10,000	10,000	10,000	10,000
Totals	<u>\$3,529,000</u>	<u>\$3,880,000</u>	<u>\$4,401,000</u>	<u>\$4,981,000</u>	<u>\$5,573,000</u>

C. Purchased Services

The increase in purchased services costs in fiscal year 2006 is due to contract negotiations and data processing services for the computer system programming, old and new leases. Utility costs increased due to the rising costs of fuel. Tuition paid to other school districts increased due to a larger number of students enrolling in community schools, open enrollment, and special education compared with the prior fiscal year. For fiscal years 2007 through 2010 the School District anticipates about a three percent increase.

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Presented below is a comparison of forecasted purchased service expenditures for fiscal years 2006 through 2010:

	Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Professional and					
Technical Services	\$170,000	\$175,000	\$180,000	\$186,000	\$191,000
Property Services	194,000	200,000	206,000	212,000	218,000
Travel and Meeting Expenses	13,000	13,000	14,000	14,000	15,000
Communication Costs	64,000	66,000	68,000	70,000	72,000
Utility Services	417,000	430,000	442,000	456,000	469,000
Trade Services	2,000	2,000	2,000	2,000	2,000
Tuition Payments	850,000	876,000	902,000	929,000	957,000
Pupil Transportation	5,000	5,000	5,000	5,000	6,000
Other Purchased Services	13,000	13,000	14,000	14,000	15,000
Totals	\$1,728,000	\$1,780,000	\$1,833,000	\$1,888,000	\$1,945,000

D. Supplies and Materials

During fiscal year 2005, cost-cutting measures limited the spending for supplies. The School District anticipates a five percent increase over the forecast period in materials and supplies due to the need to replenish the supplies and the rise in fuel costs.

Presented below is a comparison of forecasted supplies and materials expenditures for fiscal years 2006 through 2010:

	Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
General Supplies, Library					
Books and Periodicals	\$129,000	\$135,000	\$142,000	\$150,000	\$157,000
Operations, Maintenance					
and Repair	172,000	182,000	191,000	200,000	210,000
Textbooks	111,000	116,000	121,000	127,000	134,000
Totals	\$412,000	\$433,000	\$454,000	\$477,000	\$501,000

E. Capital Outlay

Property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures.

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During fiscal year 2005, the School District implemented cost-cutting procedures with the intention of only making necessary purchases. The School District anticipates only purchasing necessary items or replacement parts during fiscal years 2006 through 2010. It is anticipated that expenditures will remain at \$75,000 a year for all years except fiscal year 2008, when the School District anticipates purchasing a new school bus.

The School District has a permanent improvement fund that generates approximately \$323,000 annually. The School District uses this fund to make all major capital expenditures.

F. Debt Service

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

	Maximum Permitted Principal Amount	Amount Borrowed
December 1, 2001 through November, 2002	\$1,840,000	\$470,000
December 1, 2002 through November, 2003	1,380,000	700,000
December 1, 2003 through November, 2004	920,000	920,000
December 1, 2004 through November, 2005	460,000	460,000

The annual principal payment on the notes is \$460,000 or an amount that will reduce the outstanding principal at December 1, each year to the maximum permitted principal that may be outstanding.

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

Issue	Issue Date	Maturity Date	Issue Amount	Interest Rate
Tax Anticipation Notes	12/28/2000	12/1/2005	\$2,300,000	5.80%
Solvency Assistance Advance	5/24/2005	6/30/2007	722,000	0.00%

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Fiscal Year	Tax Anticipation Notes		Solvency Assistance Advance	Total	
	Principal	Interest	Principal	Principal	Interest
2006	\$460,000	\$13,340	\$361,000	\$821,000	\$13,340
2007	0	0	361,000	361,000	0
	<u>\$460,000</u>	<u>\$13,340</u>	<u>\$722,000</u>	<u>\$1,182,000</u>	<u>\$13,340</u>

G. Other Objects

Other object expenditures consist of dues, fees, general liability insurance and other miscellaneous goods and services not otherwise classified in another account and the refund of prior year's receipts. The School District anticipates a \$35,000 increase in other objects in 2006 due to election costs for the new levy and an increase in auditor and treasurer fees due to the collection of the new levy. Overall, the School District anticipates a two percent increase in each of the remaining years of the forecast period.

H. Operating Transfers and Advances Out

During the forecast period advances out are anticipated to be \$39,000 to cover projected deficits in various grant funds. Transfers from the general fund to the athletic fund are to cover the costs of referees and umpires.

Note 8 - Encumbrances

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

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2005 were \$511,000. This large amount is due to the fiscal year 2006 debt payment being encumbered in fiscal year 2005. Encumbrances are forecasted at \$69,000 for fiscal years 2006 through 2010.

Note 9 - Reservations of Fund Balance

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

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

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2006 through 2010**

A. Textbooks and Instructional Materials

The set aside requirement for fiscal year 2006 is \$300,000. For fiscal year 2006, the School District anticipates qualifying expenditures and the excess in expenditures from the prior year to exceed the requirement; therefore, no reserve for textbooks and instructional materials is forecasted. For fiscal years 2007 through 2010, the School District will not meet its annual set aside requirement, therefore reserves are included for those years.

B. Capital and Maintenance

The set aside requirement for fiscal year 2006 is \$300,000. The School District anticipates \$323,000 in offsets; therefore, no reserve for capital acquisition is forecasted. For fiscal years 2007 through 2010, the School District anticipates offsets and expenditures to exceed the annual set aside requirement.

C. Bus Purchases

The School District anticipates \$5,000 each year of the forecasted period. For fiscal year 2006 there is a reserve balance of \$5,000. For fiscal year 2007 the reserve will be \$10,000. The School District does not anticipate purchasing a new school bus until fiscal year 2008 which will bring the reserve down to \$0 for that fiscal year. For fiscal years 2009 and 2010, the reserve balance will be \$5,000 and \$10,000, respectively.

Note 10 - Levies

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

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November, 1997	Bond Issue - Construction	5.9861 Mills	29 Years	Failed
March, 2000	Emergency - Renewal	\$2,300,000	5 Years	Passed
November, 2002	Emergency - New	1,380,000	5 Years	Failed
May, 2003	Emergency - New	2,265,000	5 Years	Failed
August, 2003	Emergency - New	2,832,000	5 Years	Failed
November, 2003	Emergency - New	2,832,275	5 Years	Failed
March, 2004	Emergency - New	3,086,785	5 Years	Failed
August, 2004	Emergency - New	5,122,300	5 Years	Failed
November, 2004	Emergency - New	2,764,462	5 Years	Failed
February, 2005	Emergency - New	3,087,200	5 Years	Failed
May, 2005	Emergency - Renewal	2,300,000	5 Years	Passed
November, 2005	Emergency - New	1,894,000	5 Years	Passed

Note 11 – Pending Litigation

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

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

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2006 through 2010**

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 31, 2006**