

SHAKER HEIGHTS BOARD OF EDUCATION
SHAKER HEIGHTS, OHIO

July 27, 2005

TO: Members, Shaker Heights Board of Education
FROM: Bryan C. Christman, Treasurer
SUBJECT: Financial and Miscellaneous Briefs

I. GENERAL FUND (As of June 30, 2005)

A. REVENUE

1. Real Estate Taxes:

\$3,367,833 or 7.0% more than taxes received as of June 2004. 99.0% of estimated real estate tax collections have been received to date. Last year at this time, we had received 99.4% of the estimated taxes. The increased collections are due to the new 9.6 mill operating levy, which began in January 2004.

As explained in my March 17, 2005 memo and as we discussed at the March 23rd Special Board Meeting, what appeared to be an increase in delinquencies, turned out to be a payment oversight by the County Treasurer's office. The public utility tangible tax, which is combined with real estate tax collections, was inadvertently excluded from the advance payment calculations, thereby resulting in county-wide underpayments for all school districts. We received a special payment to distribute such monies on March 28th, totaling \$1.3 million.

The budget shortfall for the fiscal year approximated \$530,000, which primarily consists of the shortfall from the second half of 2004 collections of \$610,000.

2. Personal Property Taxes:

\$120,291 or 5.8% less than taxes received at this time last year. 93.9% of the estimated tangible tax has been received to date. Last year at this time, we had received 94.5% of the estimated taxes. The variance is due to a higher portion of the first half personal property taxes being received in the settlement in July this year, coupled with the new 9.6 mill operating levy, offset by a significant reduction in 2004 collections, primarily from one large taxpayer. Consequently, the actual revenues are about \$127,000 below budget.

Additionally, the exempt personal property tax received in December 2004 was \$27,200 less than the prior year due to the 2nd year of implementation of

the ten-year phase-out in accordance with the provisions of House Bill No. 95, the state's biennial budget bill legislated in June 2003.

Even though real estate and personal property tax collections have fallen below expectations for the year, the homestead and rollback total for the year exceeded the budget by \$438,000, thereby resulting in total property tax collections falling short by only \$219,000 (.36%) of the budgeted property tax revenues of \$60.3 million.

3. Investment Earnings:

\$455,677 received this year, which is \$166,904 or 57.8% more than received at this time last year. 156.0% of estimated interest income has been received to date. Last year at this time, we had received 72.2% of the estimated interest. Cash-basis interest income varies month-to-month and year-to-year due to the varying maturity dates of the investment portfolio. Consequently, the monthly variances may swing from positive to negative throughout the year.

This year's investment income experienced favorable results primarily due to the increasing interest rates. Our position of staying short-term and specifically utilizing the even more favorable rates offered by the Charter One Bank on their overnight deposit accounts contributed to increased current monthly payments in lieu of semi-annual agency security interest payments.

As expected, the Federal Reserve raised targeted short-term interest rates a quarter point to 3.25% on June 30th. The Federal Reserve is expected to again increase rates at its next meeting to be held on August 9th.

4. Other Local:

This category is \$125,000 to \$130,000 below both prior year and budget due primarily to a \$277,000 decline in the SF-14 tuition settlement as compared to the prior year. The June 2005 settlement from ODE was short of the full amount due the District due to an ODE processing error. The difference will be paid in August.

5. State Sources:

State Foundation program receipts are \$599,418 or 4.4% more than those of one year ago. 105.5% of estimated Foundation receipts have been received to date compared to 102.0% for last year. This item exceeded budget by \$744,000 or 5.5%. Of this variance, \$632,000 is due to a higher funded ADM count than projected.

Other State Sources for the 2004 fiscal year included \$508,919 for reimbursement of fiscal 2003 special education catastrophic costs at 100% of the calculated amount. This year's reimbursement rate was only about 46% vs. the normal 100% in prior years due to a residual funding provision being

applied by the State. This resulted in a \$467,000 lesser reimbursement of the total \$861,000 submitted for fiscal year 2004 reimbursable catastrophic aid costs. This category is \$178,000 below budget, primarily due to the residual funding of the special education catastrophic costs.

Other State Sources for the current and prior year-to-date amounts include two semi-annual public utility property tax reimbursements of \$388,468 in fiscal 2005 and \$388,739 in fiscal 2004 respectively, which as you may recall, is to help offset the reduction in real estate taxes collected due to the lower assessed value applied to the electric and natural gas industry properties.

6. Federal Sources:

Medicaid reimbursements total \$488,833 through the end of June, which represents 238.5% of estimated federal sources as compared to only 82.0% received through June 2004. The primary difference is due to the state's delay in processing in the last half of fiscal 2004, thereby resulting in delayed payments in excess of \$170,000 being received in the current fiscal year. For the year this category is \$283,833 better than the original budget. See Item 3, Section III of this memo for an update on the CAFS program status.

7. Total Revenue:

\$4,385,730 or 6.0% more than the amount received during the prior fiscal year-to-date. 100.9% of estimated income has been received to date compared to 100.2% last year. The variance is primarily attributable to the increased tax collections. Total revenue for the year exceeded the budgeted amount of \$77.3 million by \$671,000, or 0.9%.

B. EXPENDITURES

1. Salaries & Wages:

Payroll expenses as of June 30 represent a 2.8% increase over last year's payrolls for the same number of year-to-date pay dates. Payrolls averaged \$1,987,047 for the year-to-date vs. \$1,932,733 for the prior year. The rising average reflects the cumulative effect of the contractual increases that went into effect on January 1 and July 1, as well as the step increments that went into effect on September 1. Total salaries and wages are 3.2% above the prior year due to timing of other fund chargebacks. Included in YTD salaries and wages expense are sick leave severance payments for YTD fiscal 2005 totaling \$537,712, which represent a \$245,430 or 84.0% increase over the prior YTD total of \$292,281. Despite this increase, total wages were approximately \$391,000 below original estimates, primarily due to a \$119,000 actual decrease in total classified wages from the prior year.

Approximately \$62,000 of such decrease was attributable to the reduction of classified overtime from the prior year level of \$1,279,000.

2. Fringe Benefits:

Fringe benefit expenses in total are \$1,368,767 or 9.5% higher this fiscal YTD vs. the prior year, and \$181,000, or 1.2% over the budget amount. The variance is due to a 19.7% YTD increase in recorded health insurance expense, partially offset by a reduction in other fringes, primarily workers' compensation.

3. Utilities:

Utility payments are \$48,340 or 3.4% lower this fiscal YTD vs. the prior year due primarily to a natural gas payment holiday in September and June in this fiscal year resulting from the overpaid position at June 30, 2004, combined with higher electricity budget adjustments in F04 than in this year.

Unfortunately, the natural gas markets are expected to worsen, and accordingly our budget payments for school building consumption for fiscal 2006 have increased from \$52,000 to \$70,000, or 34.6% per month.

4. Out-of-District Tuition:

Out-of-district cash expenditures YTD are \$1,066,837 or 34.8% greater than the prior year, and were \$636,000 above the budget estimate. A significant portion of the increased cash payments is due to a catch-up payment (\$453,287) to one school district covering two years of service. This payment was applied to the carryover encumbrance that was recorded as of June 30, 2004. Including the \$370,000 net reduction in out-of-district tuition encumbrances, this category was over budget by \$266,000 for the year.

5. Total Expenditures:

On a cash basis, total expenses were \$4,072,742 or 5.6% more than the YTD expenditure level for the prior fiscal year. This represents 100.5% of the estimated fiscal 2005 expenses with 100.0% of the budget year elapsed. Last year at this time, we had spent 99.6% of estimated annual expenses. The cash basis budget to actual variance is an unfavorable \$362,484. This variance is a timing difference in payments of expenses, given the equivalent decrease in outstanding encumbrances.

Besides the increase in salaries of \$1,495,000, the variance vs. the prior year is primarily due to the following:

- \$1,229,000 increase in total health insurance costs;
- \$294,000 increase in retirement expense;
- \$1,067,000 increase in out-of-district tuition payments;
- \$48,000 decrease in utility payments;
- \$44,000 increase in other purchased service line items; and
- \$76,000 increase in materials and supplies.

As planned, we successfully lived within our Five-Year Forecast "Spending Caps" budget as is demonstrated by the chart below. We were successful in maximizing our utilization of our discretionary funds while able to retain a balance in the health self-insurance fund to cover up to 13% (maximum payable is 15%) of any liability resulting from the fiscal 2005 contingent premium settlement.

	<u>FYE 2005</u>	<u>FYE 2004</u>	<u>\$</u> <u>Inc/(Dec)</u>	<u>%</u> <u>Inc/(Dec)</u>	<u>FYE 2004</u>	<u>\$</u> <u>Inc/(Dec)</u>	<u>%</u> <u>Inc/(Dec)</u>
<u>Budget:</u>							
"Spending Caps" Budget	\$76,807,511	\$73,388,112	\$3,419,399	4.7%	\$73,388,112	\$4,661,146	6.8%
+ Carryover Encumbrances from prior yearend	1,935,723	1,644,864	290,859	17.7%	1,644,864	(38,848)	-2.3%
Total Spending Authority	<u>78,743,234</u>	<u>75,032,976</u>	<u>3,710,258</u>	<u>4.9%</u>	<u>75,032,976</u>	<u>4,622,298</u>	<u>6.6%</u>
<u>Expenditures:</u>							
Cash Payments	77,169,995	73,097,253	4,072,742	5.6%	73,097,253	4,331,439	6.3%
+ Yearend Encumbrances	1,573,239	1,935,723	(362,484)	-18.7%	1,935,723	290,859	17.7%
Total Expenditures	<u>78,743,234</u>	<u>75,032,976</u>	<u>3,710,258</u>	<u>4.9%</u>	<u>75,032,976</u>	<u>4,622,298</u>	<u>6.6%</u>
Expenditures in excess of "Spending Caps"	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>---</u>	<u>\$0</u>	<u>\$0</u>	<u>---</u>

Encumbrances at June 30, 2005, are \$362,484 lower than the prior year. The primary categories of the yearend encumbrances as compared to the prior year are as follows:

	(000's omitted)		
	<u>FYE05</u>	<u>FYE04</u>	<u>Inc/(Dec)</u>
Out-of-District Tuition	\$ 1,034	\$ 1,404	\$ (370)
Pupil Transportation (Contract)	91	81	10
Professional & Technical Services	185	211	(26)
All Other Purchased Services	81	107	(26)
Materials & Supplies	115	96	19
Capital Outlay	13	8	5
Other	55	29	26
Total	<u>\$ 1,574</u>	<u>\$ 1,936</u>	<u>\$ (362)</u>

6. Debt Service Payments:

Debt Service payments of \$514,019, including \$150,000 of principal, were made at the respective semi-annual June payment dates. Such payments are paid from the Bond Retirement Fund 002. The principal balance outstanding at June 30, 2005 totals \$22.5 million.

II. CONCLUSIONS

1. Cash balance reflects an increase of \$789,421 from that of one year ago. This is due to the \$0.5 million higher beginning-of-year balance, coupled with the \$313,000 larger excess of revenues over expenditures for the current YTD vs. the prior YTD.
2. All cash deficits were covered at June 30th.
3. The unencumbered fund balance (cash less encumbrances) at June 30, 2005 was \$11.3 million, for an increase of \$1.2 million over the prior year. The balance is \$0.7 million higher than projected for the year, due to the overall higher than budgeted revenues as follows:

	Variance Over/(Under) (000's omitted)
Property Taxes, including Homestead Exemption and Rollback	\$ (219)
Interest on Investments	164
State Foundation	744
State Section 3317.027/.028 Adjustment	(21)
Special Education Catastrophic Aid Reimbursement	(140)
Tuition, primarily from other Districts	(261)
Federal-Medicaid Reimbursements	284
Tax Valuation Settlement Payments	72
PILOT Payments	61
Other Revenues	(13)
Total	<u>\$ 671</u>

III. OTHER ITEMS

1. **Prescription Drug Consortium Settlement and Improved Discounts:**

The District received \$17,900 in settlement of audit results which identified differences in the contractual amount of discounts and rebates as compared to the amount charged to us by our pharmacy benefit manager (PBM), Caremark (formerly Advanced PCS). The settlement was the result of the efforts of Employee Benefits Cooperative (EBC), the prescription drug consortium in which we participate. The consulting firm hired, Advanced Pharmacy Concepts (APC), a nationally recognized pharmacy benefits consulting firm, determined that there were overcharges and a total settlement of \$355,000 (including our \$17,900 share) was negotiated.

In addition to the audit, APC performed a Request For Proposal process soliciting bids from the major national PBM's to confirm the price competitiveness of the current contract with Caremark. The conclusion was

that the consortium's current contract with Caremark is still competitively priced. As a part of the RFP process, EBC also renegotiated additional discounts including, for generic drugs dispensed at retail and mail order, a guaranteed minimum discount of Average Wholesale Price (AWP) minus 52%, and for mail order brand name drugs, an increased discount from AWP minus 21% to AWP minus 21.5%.

2. \$72,500 Tax Valuation Settlement Payment Received:

Through our real estate tax complaint attorney, Robert Brindza, we entered into a settlement agreement during this last fiscal year in the case of a large non-profit special-use commercial property owner, whose decrease complaint was requesting a \$3 million reduction in market value approximating an annual District share tax reduction of \$80,000.

We lost at the first level (filed by the taxpayer in Cuyahoga Court of Common Pleas rather than at the customary Board of Revision), but in a tactical approach to obtaining a settlement payment in lieu of, we appealed the case since the ruling was after the date in which an adjustment could be made for the new tax year (thus we had nothing to loose by appealing since the House Bill No. 920 adjustment would not go into effect until the following tax year). In resolution of our appeal, we entered into a negotiated agreement, whereby we stipulated to the Common Pleas ruling on property value, and in return the District received a one-time direct payment from the taxpayer of **\$72,500**. The District received and recorded the payment in the General Fund in June 2005.

3. CAFS (Medicaid Reimbursement) Program Status:

As a result of a lawsuit filed by two parents and 36 school districts (including the Shaker District) in Franklin County Common Pleas Court, a settlement was reached, effective June 15, 2005, between the Plaintiffs and the Ohio Department of Jobs and Family Services (ODJFS). The settlement provides a legally binding agreement with ODJFS to create and implement a federally approved school-based Medicaid reimbursement program to replace the CAFS program for school districts serving as Medicaid providers. The settlement requires an interim program and a long-term replacement program, both of which must be reviewed and approved by the federal Medicaid agency, the Centers for Medicare and Medicaid Services (CMS).

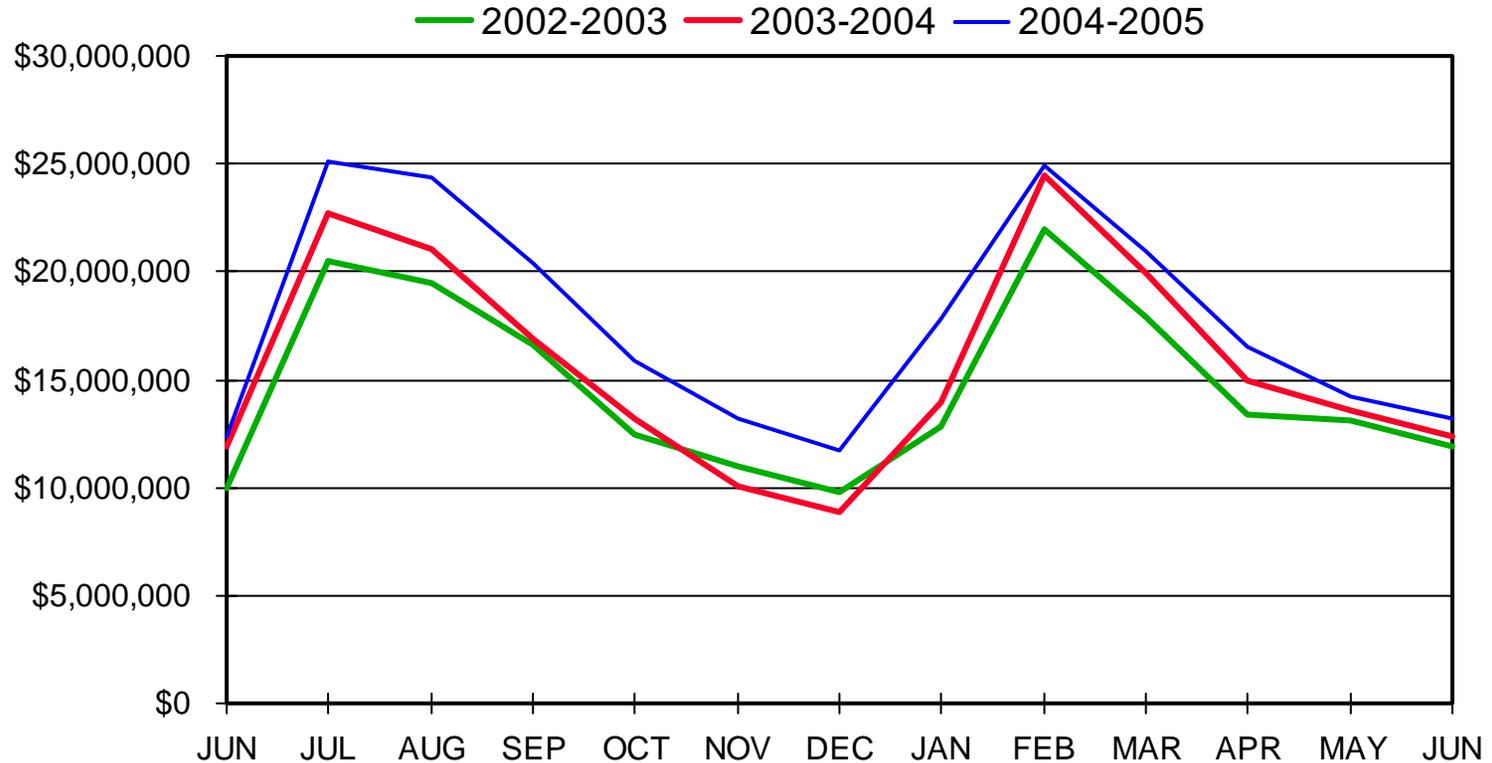
The lawsuit was filed in order to prevent the shutdown of the CAFS program causing the elimination of Medicaid reimbursements to school districts participating in the program. The planned program shutdown would have eliminated the program as of June 30, 2005, without any replacement program. Effectively, \$67 million dollars would have been lost annually by school districts across the state.

The eligible services during the interim period are limited to four core services: occupational therapy, physical therapy, speech/audiology and

psychology. These services have historically accounted for the majority of school district claims and reimbursements under the CAFS program. In Shaker, about 89% of the CAFS revenues have been generated by these four core services.

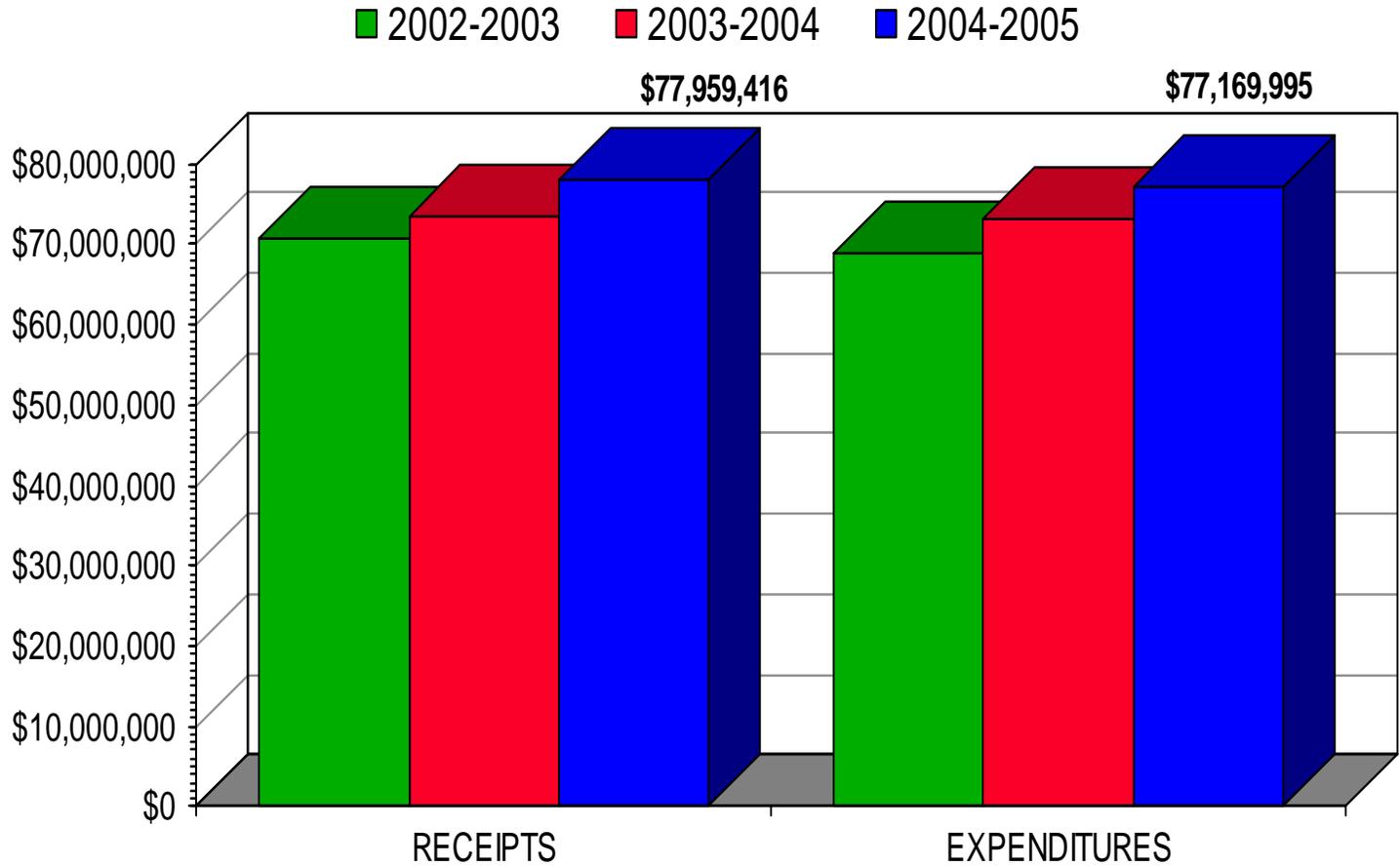
CMS demanded that Ohio address the matter of excessive school district reimbursement rates under the CAFS program. The interim program addresses this by applying reimbursement rates similar to those paid to non-school district provider types (e.g. outpatient rehabilitation clinics, etc.) contained in the Ohio Medicaid plan. The rates are less than those currently paid. The reduced rate structure is necessary in order to maintain a claiming and reimbursement program during the interim period. A new cost-based rate methodology and rate schedule will be included in the Long-term Plan submitted to CMS later this year. Accordingly, it is expected that the District's reimbursements under the interim plan will be lower than in prior years.

SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND CASH BALANCE



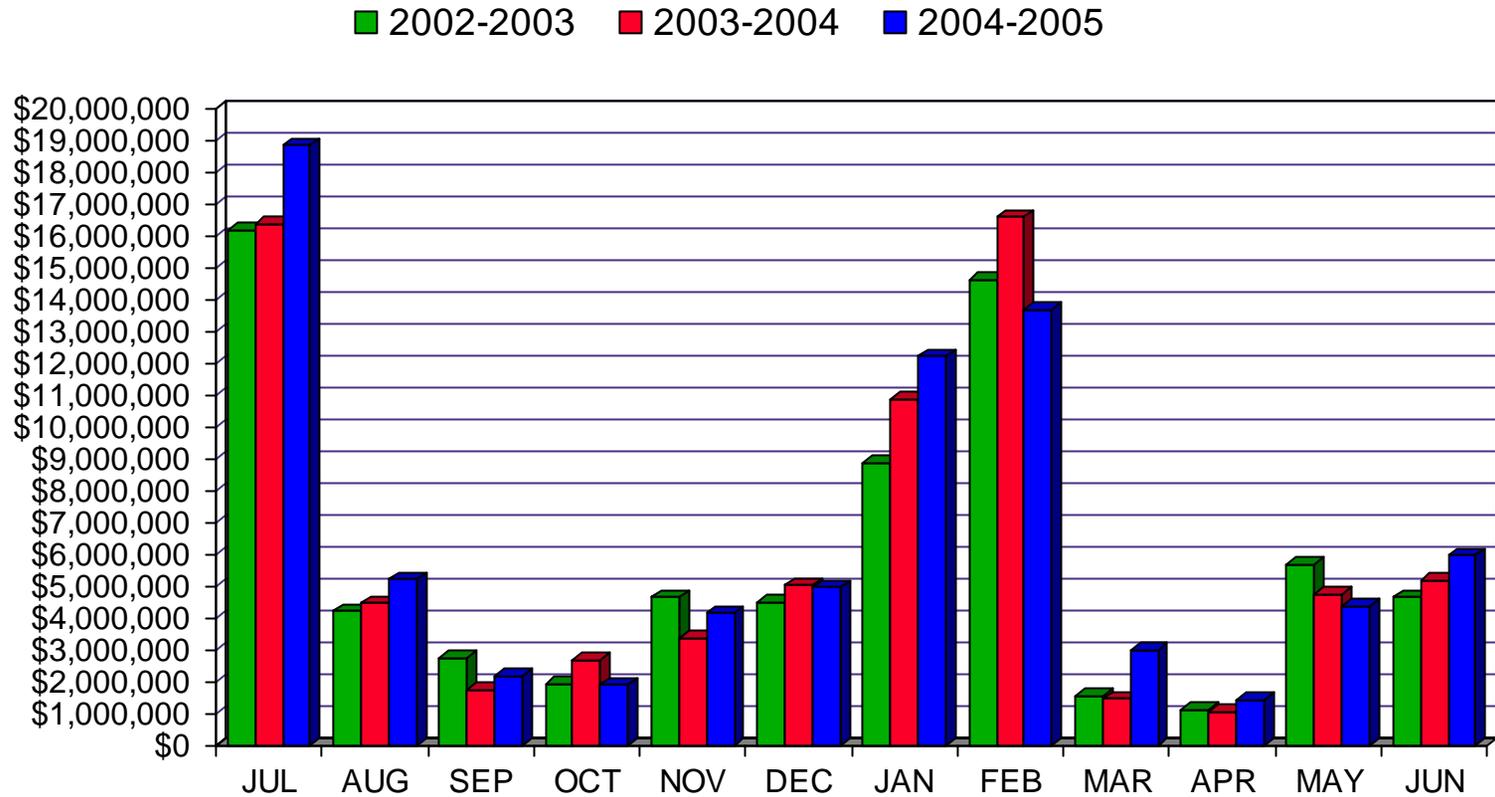
June 30, 2005

SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND



June 30, 2005

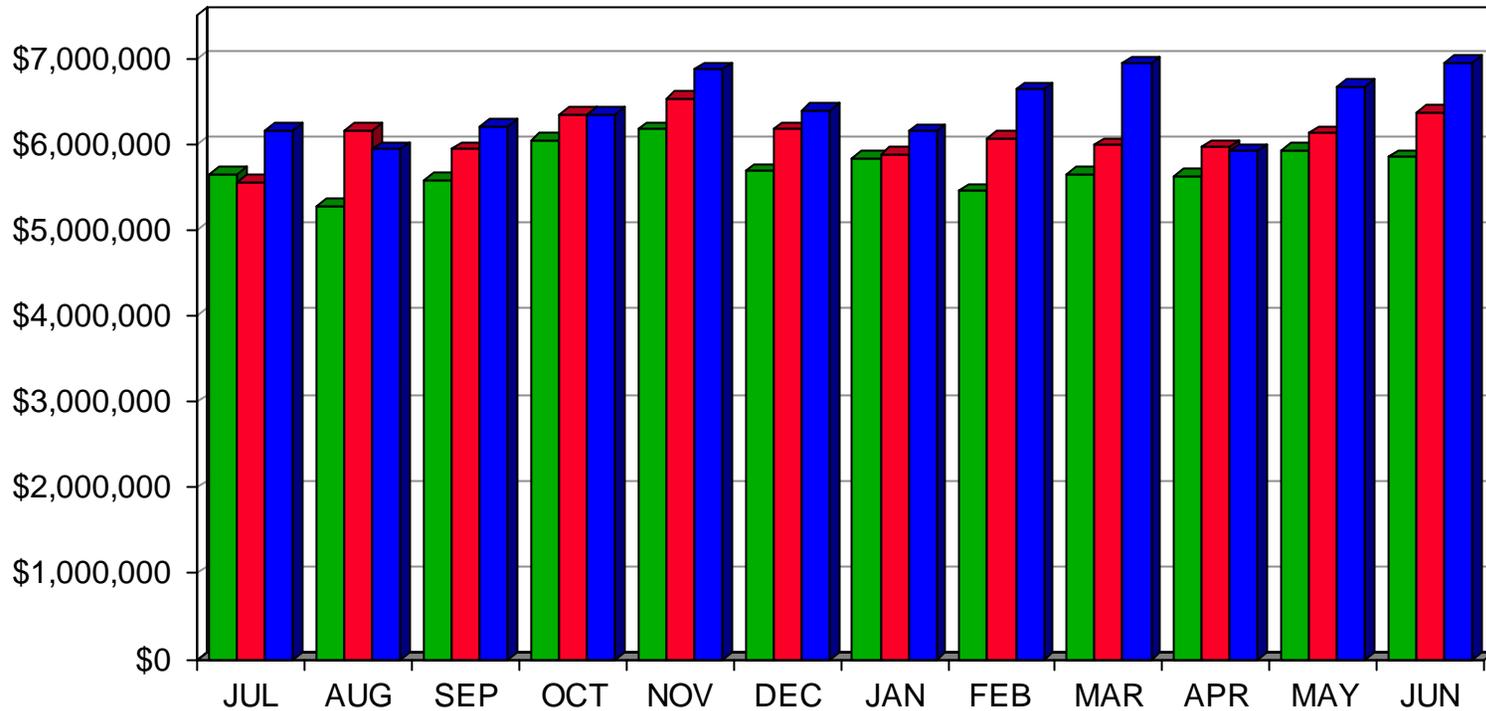
SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND RECEIPTS



June 30, 2005

SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND EXPENDITURES

■ 2002-2003 ■ 2003-2004 ■ 2004-2005



June 30, 2005

SHAKER HEIGHTS CITY SCHOOL DISTRICT
General Fund-Financial Statement
Fiscal Year Ending
June 30, 2005

FS12Jun05Web/SummaryFYE2005
9/7/2005

	Month of June				Year-To-Date June				Year-To-Date June		
	Actual F05	Actual F04	\$ Inc(Dec)	%Inc(Dec)	Actual F05	Actual F04	\$ Inc(Dec)	%Inc(Dec)	YTD Bud.F05	\$ Inc(Dec)	%Inc(Dec)
REVENUE:											
Real Estate Taxes	\$0	\$0	\$0	#DIV/0!	\$51,293,983	\$47,926,150	\$3,367,833	7.0%	\$51,823,687	(\$529,704)	-1.0%
Personal Property Taxes	125,030	84,826	40,204	47.4%	1,959,089	2,079,380	(120,291)	-5.8%	2,086,404	(127,315)	-6.1%
Investment Earnings	65,148	28,800	36,348	126.2%	455,677	288,773	166,904	57.8%	292,121	163,556	56.0%
Other Local	542,497	62,132	480,365	773.1%	1,310,572	1,440,935	(130,363)	-9.0%	1,435,000	(124,428)	-8.7%
State Foundation	1,322,047	1,510,628	(188,581)	-12.5%	14,369,177	13,769,759	599,418	4.4%	13,625,000	744,177	5.5%
Homestead Exemption & RollBack	3,398,459	3,369,860	28,599	0.8%	6,788,473	6,321,510	466,963	7.4%	6,350,000	438,473	6.9%
Other State	437,418	122,110	315,308	258.2%	1,293,612	1,496,229	(202,617)	-13.5%	1,471,478	(177,866)	-12.1%
Federal-primarily Medicaid	69,020	20,567	48,453	235.6%	488,833	250,950	237,883	94.8%	205,000	283,833	138.5%
Transfers & Advances In	0	0	0	#DIV/0!	0	0	0	#DIV/0!	0	0	#DIV/0!
TOTAL REVENUE	5,959,619	5,198,923	760,696	14.6%	77,959,416	73,573,686	4,385,730	6.0%	77,288,690	670,726	0.9%
	0	0	0		0	0	0		0	0	
EXPENDITURES:											
Salaries & Wages	4,126,595	3,934,454	192,141	4.9%	47,642,292	46,146,839	1,495,453	3.2%	48,033,000	(390,708)	-0.8%
Fringe Benefits:											
Health Insurance	611,110	394,787	216,323	54.8%	7,469,720	6,240,549	1,229,171	19.7%	7,101,000	368,720	5.2%
Retirement Expense	772,415	597,717	174,698	29.2%	7,291,230	6,997,524	293,706	4.2%	7,280,000	11,230	0.2%
All Other Fringes	(103,486)	94,955	(198,441)	-209.0%	996,329	1,150,439	(154,110)	-13.4%	1,195,000	(198,671)	-16.6%
Total Fringe Benefits	1,280,039	1,087,459	192,580	17.7%	15,757,279	14,388,512	1,368,767	9.5%	15,576,000	181,279	1.2%
Purchased Services:	0	0	0		0	0	0		0	0	
Utilities	64,926	56,249	8,677	15.4%	1,361,924	1,410,264	(48,340)	-3.4%	1,452,000	(90,076)	-6.2%
Out-of-District Tuition	831,291	805,050	26,241	3.3%	4,136,787	3,069,950	1,066,837	34.8%	3,501,000	635,787	18.2%
Pupil Transportation	173,265	160,667	12,598	7.8%	1,442,363	1,440,491	1,872	0.1%	1,520,000	(77,637)	-5.1%
All Other Purchased Services	225,994	144,945	81,049	55.9%	3,008,670	2,966,115	42,555	1.4%	3,014,000	(5,330)	-0.2%
Total Purchased Services	1,295,476	1,166,911	128,565	11.0%	9,949,744	8,886,820	1,062,924	12.0%	9,487,000	462,744	4.9%
Materials & Supplies	158,827	125,547	33,280	26.5%	2,090,676	2,014,292	76,384	3.8%	2,034,000	56,676	2.8%
Capital Outlay	14,896	20,888	(5,992)	-28.7%	463,183	426,739	36,444	8.5%	431,000	32,183	7.5%
Other-primarily Cty.Aud.&Treas.Fees	42,565	29,006	13,559	46.7%	984,909	981,339	3,570	0.4%	991,000	(6,091)	-0.6%
Transfers & Advances Out	31,700	500	31,200	6240.0%	281,912	252,712	29,200	11.6%	255,511	26,401	10.3%
TOTAL EXPENDITURES	6,950,098	6,364,765	585,333	9.2%	77,169,995	73,097,253	4,072,742	5.6%	76,807,511	362,484	0.5%
	0	0	0		0	0	0		0	0	
Net Revenues/(Expenditures)	(990,479)	(1,165,842)	175,363	-15.0%	789,421	476,433	312,988	65.7%	481,179	308,242	64.1%
Cash, Beginning of Period	14,200,903	13,586,845	614,058	4.5%	12,421,003	11,944,570	476,433	4.0%	12,421,003	0	0.0%
Cash, End of Month	13,210,424	12,421,003	789,421	6.4%	13,210,424	12,421,003	789,421	6.4%	12,902,182	308,242	2.4%
	0	0	0		0	0	0		0	0	
Less O/S Encumbrances	1,573,239	1,935,723	(362,484)	-18.7%	1,573,239	1,935,723	(362,484)	-18.7%	1,935,723	(362,484)	-18.7%
Less Budget Reserve	353,070	353,070	0	0.0%	353,070	353,070	0	0.0%	353,070	0	0.0%
Fund Balance, End of Month	\$11,284,115	\$10,132,210	\$1,151,905	11.4%	\$11,284,115	\$10,132,210	\$1,151,905	11.4%	\$10,613,389	\$670,726	6.3%
	0	(1)	0		0	0	0	0.0%	0	0	0.0%
Total General Obligation Debt Outstanding					\$22,525,933	\$13,717,774					