

STATE OF OHIO OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Hubbard Exempted Village School District Trumbull County

Financial Forecast For The Fiscal Year Ending June 30, 2001

Local Government Services Division

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STATE OF OHIO OFFICE OF THE AUDITOR

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Board of Education Hubbard Exempted Village School District 150 Hall Avenue Hubbard, Ohio 44425

We have examined the accompanying forecasted schedule of revenues, expenditures and changes in fund balance of the general fund of the Hubbard Exempted Village School District for the fiscal year ending June 30, 2001. Our examination was made in accordance with 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 the Board of Education and the preparation and presentation of the forecast.

The accompanying forecast was prepared for the purpose of determining whether the Hubbard Exempted Village School District qualifies for fiscal watch under Section 3316.03 of the Ohio Revised Code, and to enable the Auditor of State to certify the operating deficit to the State Department of Education and should not be used for any other purpose.

In our opinion, the forecasted schedule referred to above is presented in conformity with the 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 its date.

The historical financial statements for the years ended June 30, 1998, and June 30, 1999, (from which the historical data are derived) were audited by the Auditor of State's Office. The financial statements for the years ended June 30, 1998 and 1999, included an unqualified opinion and were dated December 30, 1998 and March 10, 2000, respectively.

We have compiled the accompanying Schedules of Revenues, Expenditures and Changes in Fund Balances of the general fund of the Hubbard Exempted Village School District for the fiscal year ended June 30, 2000 in accordance with 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 these financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

JIM PETRO Auditor of State

February 5, 2001

HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT TRUMBULL COUNTY SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE FISCAL YEAR ENDING JUNE 30, 2001 FORECASTED GENERAL FUND

	Fiscal Year 2001 Forecasted
Revenues	
General Property Tax (Real Estate)	\$4,558,000
Tangible Personal Property Tax	1,072,000
Unrestricted Grants-in-Aid	7,729,000
Restricted Grants-in-Aid	77,000
Property Tax Allocation	652,000
All Other Revenues	332,000
Total Revenues	14,420,000
Other Financing Sources	
Advances In	47,000
Total Revenues and Other Financing Sources	14,467,000
Expenditures	
Personal Services	8,701,000
Employees' Retirement/Insurance Benefits	2,957,000
Purchased Services	1,246,000
Supplies and Materials	348,000
Capital Outlay	198,000
Debt Service:	
Principal-Notes	200,000
Principal-HB 264 Loans	164,000
Interest and Fiscal Charges	33,000
Other Objects Total Expenditures	436,000 14,283,000
Other Financing Uses	
Transfers Out	215,000
Advances Out	25,000
Total Other Financing Uses	240,000
Total Expenditures and Other Financing Uses	14,523,000
Excess of Revenues and Other Financing	
Sources Under Expenditures and Other Financing Uses	(56,000)
Cash Balance July 1	525,000
Auditors' Adjustment to Beginning Cash	(3,000)
Cash Balance June 30, 2000	466,000
Estimated Encumbrances June 30, 2000	129,000
Reservations of Fund Balance	
Budget Reserve	168,000
Bus Purchase Allowance	17,000
Unencumbered/Unreserved Fund Balance June 30	\$152,000

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND FOR THE FISCAL YEARS ENDED JUNE 30, 1998, 1999 AND 2000 ACTUAL; FOR THE FISCAL YEAR ENDING JUNE 30, 2001 FORECASTED

	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Actual	Fiscal Year 2001 Forecasted
Revenues				
General Property Tax (Real Estate)	\$4,343,000	\$4,421,000	\$4,651,000	\$4,558,000
Tangible Personal Property Tax	940,000	987,000	967,000	1,072,000
Unrestricted Grants-in-Aid	6,161,000	6,863,000	7,099,000	7,729,000
Restricted Grants-in-Aid	35,000	124,000	77,000	77,000
Property Tax Allocation	622,000	627,000	641,000	652,000
All Other Revenues	440,000	371,000	442,000	332,000
Total Revenues	12,541,000	13,393,000	13,877,000	14,420,000
Other Financing Sources				
Proceeds from Sale of Notes	0	0	200,000	0
Advances-In	0	0	200,000	47,000
Operating Transfers In	145,000	7,000	18,000	0
Total Other Financing Sources	145,000	7,000	218,000	47,000
C C				
Total Revenues and Other Financing Sources	12,686,000	13,400,000	14,095,000	14,467,000
Expenditures				
Personal Services	7,763,000	8,207,000	8,584,000	8,701,000
Employees' Retirement/Insurance Benefits	2,415,000	2,512,000	2,467,000	2,957,000
Purchased Services	1,460,000	1,232,000	1,423,000	1,246,000
Supplies and Materials	468,000	519,000	465,000	348,000
Capital Outlay	458,000	162,000	221,000	198,000
Debt Service:				
Principal-Notes	0	0	0	200,000
Principal-HB 264 Loans	186,000	163,000	159,000	164,000
Interest and Fiscal Charges	55,000	56,000	36,000	33,000
Other Objects	196,000	421,000	428,000	436,000
Total Expenditures	13,001,000	13,272,000	13,783,000	14,283,000
Other Financing Uses				
Operating Transfers Out	321,000	7,000	47,000	215,000
Advances Out	0	0	16,000	25,000
Total Other Financing Uses	321,000	7,000	63,000	240,000
-				
Total Expenditures and Other Financing Uses	13,322,000	13,279,000	13,846,000	14,523,000
Excess of Revenues and Other Financing				
Sources Over (Under) Expenditures and				
Other Financing Uses	(636,000)	121,000	249,000	(56,000)
Cash Balance July 1	792,000	156,000	277,000	525,000
Auditor's Adjustment to Beginning Cash	0	0	(1,000)	(3,000)
Cash Balance June 30	156,000	277,000	525,000	466,000
Estimated Encumbrances June 30	30,000	41,000	62,000	129,000
Reservations of Fund Balance				
Budget Reserve	66,000	167,000	168,000	168,000
Bus Purchase Allowance	0	44,000	30,000	17,000
Unencumbered/Unreserved Fund Balance June 30	\$60,000	\$25,000	\$265,000	\$152,000

See accompanying summary of significant forecast assumptions and accounting policies

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the Hubbard Exempted Village 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 February 5, 2001, 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.

This forecast was prepared to assist in determining whether the Hubbard Exempted Village School District (the School District) meets the criteria for fiscal watch under Section 3316.03 of the Ohio Revised Code and to allow the Auditor of State to certify the operating deficit to the State Department of Education and should not be used for any other purpose.

Note 2 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under Sate 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 requires general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund.

For presentation in the forecast, the general fund has been adjusted to include the financial activity and balances of the disadvantaged pupil impact aid (DPIA), the textbook subsidy and the activity of the debt service fund related to the general fund supported debt. The inclusion of this activity has generated differences from the audited financial statements for the fiscal years ended June 30, 1998 and 1999, and the compiled financial statements for the fiscal year ended June 30, 2000. These differences are as follows:

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000
Revenues and Other Sources			
General Fund as Previously Reported	\$12,382,000	\$13,151,000	\$13,870,000
DPIA	30,000	30,000	30,000
Textbook Subsidy Debt Service Activity Related to	35,000	0	0
General Fund Supported Debt	239,000	219,000	195,000
Total Revenues and Other Sources per Forecast	12,686,000	13,400,000	14,095,000
Expenditures and Other Uses			
General Fund as Previously Reported	13,051,000	13,001,000	13,617,000
DPIA	30,000	30,000	30,000
Textbook Subsidy	0	29,000	4,000
Debt Service Activity Related to			
General Fund Supported Debt	241,000	219,000	195,000
Total Expenditures and Other Uses per Forecast	13,322,000	13,279,000	13,846,000
	· · · · · · · · · · · · · · · · · · ·		(Continued)

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000
Excess of Revenues and Other			
Sources Over (Under) Expenditures			
and Other Uses	(\$636,000)	\$121,000	\$249,000
Cash Fund Balance at Beginning of Fiscal Year	792,000	156,000	277,000
Auditor's Adjustment to Beginning Cash	0	0	(1,000)
Cash Fund Balance at End of Fiscal Year	156,000	277,000	525,000
Encumbrances at Fiscal Year End	(30,000)	(41,000)	(62,000)
Unencumbered Fund Balance at Fiscal Year End	\$126,000	\$236,000	\$463,000

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

Note 3 - Summary of Significant Accounting Policies

A. - Basis of Accounting

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

B. - Fund Accounting

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

Governmental Funds

<u>General Fund</u> - 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.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

<u>Special Revenue Funds</u> - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

<u>Debt Service Funds</u> - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

<u>Capital Projects Funds</u> - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other that those financed by proprietary funds).

Proprietary Funds

<u>Enterprise Funds</u> - Enterprise funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds

<u>Trust and Agency Funds</u> - Trust and agency funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) non-expendable trust funds, and (c) agency funds.

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations 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 object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

<u>Budget</u> - A budget of estimated cash receipts and disbursements is submitted to the Trumbull and Mahoning County Auditors, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

<u>Estimated Resources</u> - 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.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

<u>Appropriations</u> - 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.

<u>Encumbrances</u> - 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 4 - General Operating Assumptions

The Hubbard Exempted Village 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 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real estate, public utility real and personal property, and tangible personal property taxes. Advances may be requested from the Trumbull and Mahoning County Auditors as the tax is collected. When 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.

State law allows for certain reductions in the form of rollbacks and homestead exemption for real estate taxes and exempts from taxation the first \$10,000 of tangible personal property. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is included in the forecasted amount for property tax allocation.

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the year are recorded as revenue in next fiscal year. New and /or expiring levies result in one-half of the annual revenue being recorded in the first and/or last year of collection.

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

Tax Levies	Year Approved	Last year of Collection	Full Tax Rate (Mills)
Inside Ten Mill Limitation	n/a	n/a	\$5.10
Continuing Operating	1976	n/a	24.70
Continuing Operating	1985	n/a	1.00
Continuing Operating	1992	n/a	11.00
Emergency	1996	2001	6.46
Total Tax Rate			\$48.26

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

<u>General Property Tax (Real Estate)</u> - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amount shown in the revenue section of the forecast schedules represents gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Trumbull and Mahoning County Auditors. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account. Based upon these estimates, the School District anticipates receiving \$4,558,000 in real estate tax revenue, which is a decrease of \$93,000 from the prior year. The decrease in real estate tax revenue is due to class two revenues decreasing.

<u>Tangible Personal Property Tax</u> - Tangible personal property tax revenues are generated from the property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues are based upon information provided by the Trumbull and Mahoning County Auditors. Based upon these estimates, the School District anticipates receiving \$1,072,000 in tangible personal property tax revenue, which is an increase of \$105,000 from fiscal year 2000 receipts. The tangible personal property tax revenues are affected by businesses starting and closing, as well as the timing of the receipt of the June property tax settlement.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). Additionally, the Ohio legislature passed and the governor approved legislation during 1999 calling for the reduction in the assessed valuation of the inventory component of personal property tax by one percent each year over the next 25 years.

B. - Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section. Unrestricted grants-in-aid includes formula aid, special education aid, training and experience of classroom teachers funding, unrestricted disadvantaged pupil impact aid, extended service, gifted aid, transportation, and vocational education.

In 1998, State law set the base cost per pupil at \$4,063 and increased the rate each year thereafter, based on annual rate of inflation of two and eight-tenths percent, to \$4,177 for fiscal year 2000, and \$4,294 for fiscal year 2001.

The anticipated revenue for fiscal year 2001 is based on current estimates provided by the Ohio Department of Education. The anticipated increase of \$630,000 is caused by increases in the per pupil funding and ADM changes from the prior fiscal year.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consists of disadvantaged pupil impact aid (DPIA) and a bus purchase allowance in the amount of \$30,000 and \$47,000, respectively, which is consistent with the prior fiscal year.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

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 above (rollback and homestead).

Property tax allocation revenue, based on information provided by the Trumbull and Mahoning County Auditors, is anticipated to increase \$11,000 from the prior fiscal year.

E. - All Other Revenues

All other revenues consist of the following:

	Actual	Forecast	Variance
	Fiscal Year	Fiscal Year	Increase
Revenue Sources	2000	2001	(Decrease)
Interest on Investments	\$66,000	\$80,000	\$14,000
Classroom Materials and Fees	10,000	10,000	0
Tuition	23,000	15,000	(8,000)
Rental	7,000	13,000	6,000
Contributions	20,000	13,000	(7,000)
Services to Other Entities	29,000	29,000	0
Royalties	10,000	10,000	0
Transportation Fees	0	2,000	2,000
Refund of Prior Year Expenditures	162,000	100,000	(62,000)
Miscellaneous	115,000	60,000	(55,000)
Totals	\$442,000	\$332,000	(\$110,000)

The \$110,000 decrease is primarily due to the School District misclassifying miscellaneous revenues in the prior fiscal year, and the receipt of refund of a prior year expenditure in fiscal year 2002 which will not be received in the current fiscal year.

F. - Proceeds from Sale of Notes

During fiscal year 2000, the School District issued \$200,000 in tax anticipation notes. The notes were repaid during fiscal year 2001 on December 16, 2000. The School District does not anticipate issuing any other notes during the forecast period.

G. - Advances In

Advances in represents amounts loaned to other funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year. The general fund will receive \$47,000 which represents the repayment of advances from various special revenue funds and an enterprise fund.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

Note 5 - Significant Assumptions For Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified and classified staff, supplemental contracts, substitutes, severance pay, and board members' compensation. All employees receive their compensation on a bi-weekly basis. Historically, the certified, classified, and administrative staff levels have remained the same.

Certified (teacher) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. The contract covers the period of July 1, 1998, to June 30, 2001, and allows increases in the base salary of approximately four percent each year. Classified staff salaries are also based on a negotiated contract which includes base and step increases. The contract covers the period from July 1, 1998, to June 30, 2001, and allows for base salary increases of four percent for 1998 and three percent for 1999 and 2000. Administrative salaries are set by the Board of Education.

The School District offers severance pay to its employees of up to thirty-three percent of the accumulated sick leave to a maximum of 80 days and the unused personal leave upon retirement to be paid at the employee's current per diem rate.

Presented below is a comparison of salaries and wages for the fiscal year 2000 and the forecast period.

	Actual	Forecast	Variance
	Fiscal Year	Fiscal Year	Increase
	2000	2001	(Decrease)
Certified Salaries	\$6,319,000	\$6,365,000	\$46,000
Classified Salaries	1,416,000	1,322,000	(94,000)
Substitute Salaries	269,000	429,000	160,000
Supplemental Contracts	229,000	229,000	0
Severance Pay	132,000	72,000	(60,000)
Opt Out Insurance	110,000	170,000	60,000
Other Salaries and Wages	109,000	114,000	5,000
	\$8,584,000	\$8,701,000	\$117,000

The changes in personal services are based on the following:

An increase of four percent in base salaries for certified salaries and a three percent increase in classified salaries, as well as step increases and staff changes that are offset by several employees retiring at the higher end of the wage scale being replaced by employees at the lower end of the wage scale;

An increase in substitute costs due to substitutes needed for two employees on pregnancy leave during fiscal year 2001 that did not occur during fiscal year 2000; and

An increase in opt out insurance due to more employees taking this option during fiscal year 2001.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

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 for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next fiscal year.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, and the monthly premiums.

Medicare benefits are based on the employers' rate of 1.45 percent and the payroll costs for contributing staff.

Workers' compensation premiums are based on the School District's rate and the anticipated salaries for the fiscal year.

Presented below is a comparison of fiscal year 2000 and the forecast period:

	Actual	Forecast	Variance
	Fiscal Year	Fiscal Year	Increase
	2000	2001	(Decrease)
Employer's Retirement	\$1,177,000	\$1,234,000	\$57,000
Health Care Insurance	1,115,000	1,550,000	435,000
Workers' Compensation	102,000	77,000	(25,000)
Unemployment	1,000	2,000	1,000
Social Security	3,000	3,000	0
Tuition	11,000	10,000	(1,000)
Medicare	53,000	61,000	8,000
Attendance Incentive	5,000	20,000	15,000
	\$2,467,000	\$2,957,000	\$490,000

The significant changes in employees' retirement and insurance benefits are based on the following:

An increase in STRS and SERS retirement benefits due to an increase in salaries offset by employees retiring and being replaced by employees being paid from the lower end of the pay scale and the procedure of contributing to the retirement systems based on estimated salaries rather than actual salaries.

An increase in insurance payments due to an increase in rates for health insurance. The School District is currently partially self-insured with Professional Benefits Insurance and entirely self-insured with Anthem Insurance. During fiscal year 2001, the School District will be changing health insurance companies to become entirely self-insured. Because of this change, the School District is anticipating run off claims from the old companies as well as paying claims with the new insurance company.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

Workers' compensation payments are forecasted to decrease due to a decrease in the rate as well as the School District receiving a 75% premium reduction in the prior fiscal year from the Bureau of Workers' Compensation that it will not be receiving in the forecast year.

C. - Purchased Services

Purchased service expenditures forecasted in the amount of \$1,246,000 are comprised of the following:

	Actual	Forecast	Variance
	Fiscal Year	Fiscal Year	Increase
	2000	2001	(Decrease)
Professional and Technical Services	\$108,000	\$108,000	\$0
Property Services	612,000	200,000	(412,000)
Travel and Meeting Expenses	34,000	39,000	5,000
Communication Costs	67,000	63,000	(4,000)
Utility Services	318,000	397,000	79,000
Printing	76,000	62,000	(14,000)
Tuition Payments	47,000	218,000	171,000
Pupil Transportation Costs	161,000	159,000	(2,000)
	\$1,423,000	\$1,246,000	(\$177,000)

The net decrease in purchased services is due primarily to a significant amount spent on various capital improvements during the previous fiscal year that the School District does not anticipate taking place again during fiscal year 2001. The decrease is offset by an increase in tuition payments to the County Educational Service Center for fiscal year 2001.

D. - Supplies and Materials

Supplies and materials are comprised of the following:

	Actual	Forecast	Variance
	Fiscal Year	Fiscal Year	Increase
	2000	2001	(Decrease)
General Supplies, Library Books and Periodicals	\$139,000	\$88,000	(\$51,000)
Operations, Maintenance, and Repair	293,000	237,000	(56,000)
Textbooks	33,000	23,000	(10,000)
	\$465,000	\$348,000	(\$117,000)

Supplies and Materials are forecasted to decrease due to the School District limiting expenditures due to its financial situation.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

E. - Capital Outlay

Property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements for the general government services is to report the expenditure of resources, not costs.

Capital outlay expenditures are forecasted in the amount of \$198,000. The School District is limiting expenditures in fiscal year 2001 due to its financial condition.

F. - Debt Service

General fund supported debt consists of a tax anticipation note and two energy conservation HB 264 loans. The final payment on the tax anticipation note was made during fiscal year 2001. The funds necessary for payment of principal and interest are provided by property taxes.

	Principal	Interest	
	Amount	Amount	Total
Tax Anticipation Note	\$200,000	\$6,000	\$206,000
HB 264 Energy Conservation Loan	105,000	17,000	122,000
HB 264 Energy Conservation Loan	59,000	10,000	69,000
Total	\$364,000	\$33,000	\$397,000

G. - Other Objects

Other objects include dues, fees, liability insurance, and county educational service center costs. The School District anticipates \$436,000 in expenditures for this area in fiscal year 2001. The most significant forecasted increase is the county educational service center cost.

H. - Operating Transfers and Advances Out

The School District will transfer \$215,000 to its athletic fund, student activities fund and to its permanent improvement fund. The advances are expected to be \$25,000 during fiscal year 2001.

I. - Spending Reserve

Section 133.301, Revised Code, allows the School District to issue notes during the current fiscal year in anticipation of fiscal year 2001 property tax revenues provided that such amount, referred to as the spending reserve, is included in the current year tax budget. The School District did not include a spending reserve in their current year tax budget.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

Note 6 - Encumbrances

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

The amount forecasted for encumbrances for fiscal year 2001 is \$129,000 which includes the State Teacher's Retirement System advance in the amount of \$85,000.

Note 7 - Reservations of Fund Balance

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

A. - Textbooks and Instructional Materials

The School District is required to set aside annually three percent of certain revenues for the purchase of textbooks and instructional materials. The set aside amount for fiscal year 2001 is \$338,000. Qualifying expenditures in the amount of \$190,000 are anticipated. The School District has passed a unanimous Board Resolution and obtained the necessary approvals from the Superintendent, Hubbard Exempted Village Business Advisory Council and the Hubbard Exempted Village Schools Education Association President to appropriate these funds for other purposes for fiscal year 2001; therefore, the set aside is not required.

B. - Capital Acquisition and Improvements

The School District is also required to set aside annually three percent of certain revenues for capital acquisition and improvements. The set aside amount for fiscal year 2001 is \$338,000. Qualifying expenditures in the amount of \$363,000 are anticipated; therefore, no reserve is forecasted.

C. - Budget Reserve

The School District is required to establish a budget reserve and set aside one percent of certain revenues each year there is a growth of three percent or more in these revenues. Each year the School District meets the criteria the required balance in the budget reserve increases by one percent until the five percent limit is reached. Under Section 39 of House Bill 770 and 5705.29(I), Revised Code, school districts are required to credit any refund from the Bureau of Worker's Compensation to the budget reserve. Workers' compensation refunds may reduce the contribution required in the current and/or future periods. No set aside is required for fiscal year 2001. However, the School District does have a carryover reserve of \$168,000.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

D. - Disadvantaged Pupil Impact Aid (DPIA)

DPIA restricted revenues are projected to be expended completely during fiscal year 2001; therefore, no carryover reserve is anticipated.

E. - Bus Purchase

At June 30, 2000 the School District had \$30,000 in unspent bus monies. In addition, the School District received \$47,000 in a bus purchase allowance during fiscal year 2001. The School District purchased a school bus during the forecast year that cost \$60,000. Therefore, a balance of \$17,000 is reserved.

Note 8 - Levies

The School District plans to place a renewal emergency levy on the ballot during May, 2001 to replace the November, 1996 levy that will be expiring December, 2001. 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:

E1 /*

Date	Туре	Amount	Term	Election Results	
May, 1990	Permanent Improvement	2 mills	5 years	Failed	
November, 1990	Permanent Improvement	2 mills	5 years	Failed	
February, 1991	Permanent Improvement	3 mills	1 year	Failed	
May, 1991	Permanent Improvement	3 mills	1 year	Failed	
November, 1991	Emergency	9.951 mills	5 year	Passed	
November, 1991	Income Tax	½ of 1%	5 years	Failed	
May, 1992	Continuing	11 mills	Continuing	Passed	
November, 1996	Emergency	8.64914 mills	5 years	Passed	

Note 9 - Pending Litigation

Management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2001

Note 10 - State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the School District received \$5,654,083 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of the financial forecast, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under these programs and on its financial operation.



STATE OF OHIO OFFICE OF THE AUDITOR

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HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT

TRUMBULL 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 Babbett

CLERK OF THE BUREAU

CERTIFIED FEBRUARY 28, 2001