



**Auditor of State
Betty Montgomery**

**Huron City School District
Erie County, Ohio**

**Financial Forecast
For The Fiscal Year Ending June 30, 2005**

Huron City School District
Erie County

Table of Contents

| Title | Page |
|--|------|
| Table of Contents | 1 |
| Certification | 2 |
| Independent Accountant's Report..... | 3 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2002 through 2004 Actual; Fiscal Year Ending June 30, 2005 Forecasted | 4 |
| Summary of Significant Forecast Assumptions and Accounting Policies..... | 5 |



**Auditor of State
Betty Montgomery**

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

and

Board of Education
Huron City School District
712 Cleveland Road East
Huron, Ohio 44839

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Huron City School District, Erie County, Ohio, and issued a report dated October 1, 2004. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2005 of \$430,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2005 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

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

Peter R. Sorem
Chief of Local Government Services

October 14, 2004



Auditor of State Betty Montgomery

Board of Education
Huron City School District
712 Cleveland Road East
Huron, Ohio 44839

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 Huron City School District for the fiscal year ending June 30, 2005. The Huron City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of Huron City School District for the fiscal years ended June 30, 2002, 2003, and 2004 were compiled by us in accordance with the Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

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

BETTY MONTGOMERY
Auditor of State

October 1, 2004

HURON CITY SCHOOL DISTRICT
 ERIE COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEARS ENDED JUNE 30, 2002 THROUGH 2004 ACTUAL;
 FOR THE FISCAL YEAR ENDING JUNE 30, 2005 FORECASTED
 GENERAL FUND

| | Fiscal Year 2002 Actual | Fiscal Year 2003 Actual | Fiscal Year 2004 Actual | Fiscal Year 2005 Forecasted |
|--|----------------------------|----------------------------|----------------------------|--------------------------------|
| Revenues | | | | |
| General Property Tax (Real Estate) | \$5,807,000 | \$5,861,000 | \$6,117,000 | \$6,184,000 |
| Tangible Personal Property Tax | 1,749,000 | 1,506,000 | 1,523,000 | 1,506,000 |
| Unrestricted Grants-in-Aid | 2,429,000 | 2,708,000 | 2,621,000 | 2,608,000 |
| Restricted Grants-in-Aid | 33,000 | 28,000 | 35,000 | 34,000 |
| Property Tax Allocation | 716,000 | 735,000 | 765,000 | 764,000 |
| All Other Revenues | 278,000 | 330,000 | 400,000 | 304,000 |
| <i>Total Revenues</i> | <u>11,012,000</u> | <u>11,168,000</u> | <u>11,461,000</u> | <u>11,400,000</u> |
| Other Financing Sources | | | | |
| Proceeds from Sale of Notes | 0 | 0 | 610,000 | 0 |
| Operating Transfers In | 206,000 | 0 | 0 | 0 |
| Advances In | 0 | 1,000 | 10,000 | 0 |
| Sale of Capital Assets | 1,000 | 89,000 | 0 | 0 |
| <i>Total Other Financing Sources</i> | <u>207,000</u> | <u>90,000</u> | <u>620,000</u> | <u>0</u> |
| <i>Total Revenues and Other Financing Sources</i> | <u>11,219,000</u> | <u>11,258,000</u> | <u>12,081,000</u> | <u>11,400,000</u> |
| Expenditures | | | | |
| Personal Services | 6,471,000 | 6,853,000 | 6,457,000 | 6,385,000 |
| Employees' Retirement/Insurance Benefits | 2,311,000 | 2,546,000 | 3,002,000 | 2,948,000 |
| Purchased Services | 1,178,000 | 1,196,000 | 1,161,000 | 1,554,000 |
| Supplies and Materials | 555,000 | 482,000 | 470,000 | 364,000 |
| Capital Outlay | 215,000 | 132,000 | 10,000 | 50,000 |
| Debt Service: | | | | |
| Principal-Notes | 0 | 0 | 0 | 205,000 |
| Principal-HB 264 Loans | 70,000 | 70,000 | 70,000 | 70,000 |
| Interest | 13,000 | 9,000 | 19,000 | 15,000 |
| Other Objects | 473,000 | 546,000 | 542,000 | 555,000 |
| <i>Total Expenditures</i> | <u>11,286,000</u> | <u>11,834,000</u> | <u>11,731,000</u> | <u>12,146,000</u> |
| Other Financing Uses | | | | |
| Operating Transfers Out | 206,000 | 0 | 10,000 | 123,000 |
| Advances Out | 11,000 | 0 | 0 | 0 |
| <i>Total Other Financing Uses</i> | <u>217,000</u> | <u>0</u> | <u>10,000</u> | <u>123,000</u> |
| <i>Total Expenditures and Other Financing Uses</i> | <u>11,503,000</u> | <u>11,834,000</u> | <u>11,741,000</u> | <u>12,269,000</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | (284,000) | (576,000) | 340,000 | (869,000) |
| Cash Balance July 1 | 1,141,000 | 856,000 | 280,000 | 620,000 |
| Cash Balance (Deficit) June 30 | 857,000 | 280,000 | 620,000 | (249,000) |
| Encumbrances and Reserves: | | | | |
| Actual/Estimated Encumbrances June 30 | 199,000 | 64,000 | 157,000 | 140,000 |
| Reservations of Fund Balance for: | | | | |
| Budget Reserve | 54,000 | 54,000 | 54,000 | 0 |
| Bus Purchase | 0 | 21,000 | 31,000 | 41,000 |
| Total Encumbrances and Reserves of Fund Balance | <u>253,000</u> | <u>139,000</u> | <u>242,000</u> | <u>181,000</u> |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30 | <u>\$604,000</u> | <u>\$141,000</u> | <u>\$378,000</u> | <u>(\$430,000)</u> |

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

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 1 – The School District

The Huron City School District (the School District) is located in Erie County and encompasses all of the City of Huron. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates one elementary school, one middle school and one high school. The School District is staffed by 50 non-certified and 86 certificated personnel to provide services to approximately 1,585 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Huron 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 October 1, 2004, 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 - Summary of Significant Accounting Policies

A. - Basis of Accounting

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

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:

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

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

Debt Service Fund - Debt service funds are used to 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 are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

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

Fiduciary Funds

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

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Erie 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.

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

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 4 - General Operating Assumptions

The Huron 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 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, manufactured home and tangible personal property taxes. Taxes are collected during the fiscal year by the Erie County Auditor. Settlement dates on which collections are distributed to the School District are established by State statute. Advances may be requested from the Erie County Auditor as taxes are 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 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 presented in the forecast schedule in the account "property tax allocation".

Historically, the School District does not receive advances against the August real estate tax settlement, which is intended to finance the next fiscal year. The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

Huron City School District
 Erie County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

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

| <u>Tax Levies</u> | <u>Year Approved</u> | <u>Last Year of Collection</u> | <u>Full Tax Rate (Per \$1,000 of Assessed Valuation)</u> |
|----------------------------|--------------------------|------------------------------------|--|
| Inside Ten Mill Limitation | n/a | n/a | \$5.30 |
| Continuing Operating | Prior to 1976 | n/a | 36.50 |
| Continuing Operating | 1985 | n/a | 7.30 |
| Continuing Operating | 1990 | n/a | 5.90 |
| Current Operating | 2002 | 2006 | 5.90 |
| Emergency | 2004 | 2009 | 1.96 |
| Total Tax Rate | | | <u>\$62.86</u> |

The School District has other levies for bonded debt, permanent improvements and the School District library totaling \$5.00 per \$1,000 of assessed valuation. The School District's total rate is \$67.86 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction, except for emergency levies. Emergency levies generate the same amount of revenues regardless of the change in assessed valuation. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$26.21 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$37.43 per \$1,000 of assessed valuation for the collection year 2005.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represents gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Erie County Auditor. The general property tax increase is due to new construction and increased valuations.

Tangible Personal Property Tax - Tangible personal property tax is applied to 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 County Auditor. The decrease in tangible personal property tax is the result of the reduction in assessment rates.

C. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid include State Foundation. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, excess cost supplement, and charge-off supplement, are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

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 per pupil foundation level for fiscal year 2002 was set by the legislature at \$4,490 and at \$4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 and 2005 at \$5,058 and \$5,169, respectively.

The anticipated revenue for fiscal year 2005 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$2,544,000, which represents a \$77,000 decrease from the prior fiscal year. This decrease is due to the increase in assessed valuation caused by a reappraisal. Only one-third of the reappraisal increase impacts the foundation amount for fiscal year 2005.

Beginning in tax year 2001, there will be 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 will be used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in March and September. The School District is anticipating \$64,000 in public utility reimbursements in fiscal year 2005, which is based on information provided by the Ohio Department of Taxation.

D. - Restricted Grants-in-Aid

Restricted grants-in-aid includes an anticipated bus purchase allowance of \$10,000 and a \$24,000 reimbursement from the State for catastrophic costs related to special education students.

E. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Erie County Auditor, is anticipated to be \$764,000, a decrease of \$1,000 from the prior fiscal year.

F. - All Other Revenues

All other revenues include tuition, field trip reimbursements, interest on investments, student class and book fees, rentals, book fines, miscellaneous receipts, donations and the refund of prior year expenditures.

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.

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

An increase in student class and book fees is due to the fact that in prior fiscal years, the School District only charged each student at the middle and elementary schools half of their fees. In fiscal year 2005, students will be required to pay the entire amount.

In fiscal year 2004 the School District received \$136,000 in donations which were for capital improvements. This will not occur in fiscal year 2005.

All other revenues consist of the following:

| Revenue Sources | Actual Fiscal Year 2002 | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Tuition | \$11,000 | \$18,000 | \$6,000 | \$6,000 | \$0 |
| Field Trips | 5,000 | 5,000 | 1,000 | 1,000 | 0 |
| Interest | 49,000 | 23,000 | 20,000 | 18,000 | (2,000) |
| Student Class and Book Fees | 44,000 | 44,000 | 46,000 | 68,000 | 22,000 |
| Rentals | 127,000 | 122,000 | 148,000 | 148,000 | 0 |
| Book Fines | 1,000 | 1,000 | 2,000 | 2,000 | 0 |
| Other | 20,000 | 61,000 | 18,000 | 38,000 | 20,000 |
| Donations | 0 | 0 | 136,000 | 0 | (136,000) |
| Refund of Prior Year Expenditures | 21,000 | 56,000 | 23,000 | 23,000 | 0 |
| Totals | \$278,000 | \$330,000 | \$400,000 | \$304,000 | (\$96,000) |

G. – Other Financing Sources

Proceeds from Sale of Notes – During fiscal year 2004, the School District issued a three year, \$610,000 tax anticipation note. This note was issued against the proceeds of the 1.96 mill emergency levy approved in 2004. The notes are to be repaid over a three year period, ending December 1, 2006. The School District does not anticipate issuing any notes during the forecast period.

Transfers In – Transfers in represents amounts given to other funds in the forecast year. The general fund is not expected to receive any transfers in.

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. There are no outstanding amounts to be repaid to the general fund.

Note 6 – Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis.

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. The contract covers the period August 1, 2002 to July 31, 2005, and allows for a four percent increase in the base salary as well as step increases from four to seven percent in each year of the contract. The contract for classified staff covers the period July 1, 2001 to June 30, 2005. It allows for a five percent increase in each year of the contract. Administrative salaries are set by the Board of Education.

The forecast includes salary and step increases provided to certified staff. The increase in certified salaries is offset by a reduction of 7.75 full-time equivalents. For fiscal year 2005, classified salaries include a five percent increase, which was offset by the elimination of seven part time positions.

Beginning in fiscal year 2005, the School District contracted with a staffing firm to provide all of the School District's substitute teachers, custodians and bus aides. The only salaries included in tutors/substitutes fiscal year 2005 are a long-term administrative position and four tutors.

The School District offers severance pay upon retirement to its certified and classified employees with ten or more years of service in the School District. Payments for certified employees are one third of their unused sick leave but not to exceed a total of 80 days. Payments for classified employees are one fourth of their unused sick leave but not to exceed a total of 42 days. Severance costs are anticipated to increase due to the retirement of three staff members during the forecast period compared with the retirement of one only staff member during fiscal year 2004.

In fiscal year 2003, the School District offered an early retirement incentive plan to reduce salary costs. Employees who participated in an early retirement incentive plan will receive one hundred percent of their severance pay pursuant to the following schedule: one-third of severance pay on the three-year anniversary date of retirement, one-third of severance pay on the four-year anniversary date of retirement, and one-third of severance pay on the five-year anniversary date of retirement. These payments will be paid outside of the forecasted period.

Presented below is a comparison of salaries and wages for fiscal year 2004 and the forecast period.

| | Actual Fiscal Year 2002 | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|----------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Certified Salaries | \$4,773,000 | \$5,074,000 | \$4,849,000 | \$4,861,000 | \$12,000 |
| Classified Salaries | 1,065,000 | 1,195,000 | 1,187,000 | 1,140,000 | (47,000) |
| Tutors/Substitute Salaries | 171,000 | 200,000 | 125,000 | 86,000 | (39,000) |
| Supplemental Contracts | 305,000 | 293,000 | 274,000 | 203,000 | (71,000) |
| Severance Pay | 147,000 | 88,000 | 16,000 | 87,000 | 71,000 |
| Other Salaries and Wages | 10,000 | 3,000 | 6,000 | 8,000 | 2,000 |
| Totals | <u>\$6,471,000</u> | <u>\$6,853,000</u> | <u>\$6,457,000</u> | <u>\$6,385,000</u> | <u>(\$72,000)</u> |

B. – Employees' Retirement/Insurance Benefits

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

Retirement costs are based on the employers' contribution rate of fourteen percent of salaries for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

resulting from over estimates are prorated over the next calendar year. Retirement costs are forecasted to decrease based on forecasted salaries and adjustments resulting from over/under estimates prorated over the next calendar year. The School District also pays the employee retirement contribution for all administrative staff.

Health care, drug, dental and vision premiums are fixed on a calendar year basis. The School District anticipates premiums for health and prescription drug to increase during fiscal year 2005. For 2005 dental and vision premiums will remain consistent with 2004. The monthly premiums are as follows:

| | Certified | | Classified | |
|-------------------|---------------------|---------------------|---------------------|---------------------|
| | Fiscal Year 2004 | Fiscal Year 2005 | Fiscal Year 2004 | Fiscal Year 2005 |
| Family: | | | | |
| Health Insurance | \$682.67 | \$687.62 | \$671.15 | \$682.29 |
| Prescription Drug | 273.02 | 304.66 | 290.88 | 324.37 |
| Single: | | | | |
| Health Insurance | \$268.62 | \$269.50 | \$264.08 | \$268.04 |
| Prescription Drug | 116.70 | 129.86 | 124.52 | 138.47 |

Although premiums increased, health care costs for fiscal year 2005 are forecast to decrease since the School District has eliminated positions.

Life insurance premiums are based on the coverage amount, the anticipated number of employees participating in the program and the monthly premiums.

The School District offered an early retirement incentive plan for members of the State Teachers Retirement System (STRS), in which service credit was purchased. Participation was open to all eligible STRS members. A member was eligible if age 50 had been attained on or before the effective date of retirement, they qualified to retire with the offered purchase of service credit, and they agreed to retire by August 1, 2003. The amount of service credit purchased for any participant was the lesser of two years, or one-fifth of each member's total service. Eight members participated in this plan. The early retirement incentive payments to STRS are split between fiscal years 2004 and 2005.

Presented below is a comparison of fiscal year 2004 and the forecast period:

| | Actual Fiscal Year 2002 | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|----------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Employer's Retirement | \$917,000 | \$1,002,000 | \$1,073,000 | \$986,000 | (\$87,000) |
| Health Care/Life Insurance | 1,298,000 | 1,430,000 | 1,607,000 | 1,601,000 | (6,000) |
| Workers' Compensation | 14,000 | 25,000 | 45,000 | 48,000 | 3,000 |
| Medicare | 63,000 | 70,000 | 71,000 | 68,000 | (3,000) |
| Unemployment | 0 | 0 | 4,000 | 10,000 | 6,000 |
| Tuition Reimbursement | 15,000 | 15,000 | 32,000 | 29,000 | (3,000) |
| Early Retirement Incentive | 0 | 0 | 167,000 | 203,000 | 36,000 |
| Annuities | 4,000 | 4,000 | 3,000 | 3,000 | 0 |
| Totals | \$2,311,000 | \$2,546,000 | \$3,002,000 | \$2,948,000 | (\$54,000) |

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

C. - Purchased Services

Purchased service expenditures are comprised of the following:

| | Actual Fiscal Year 2002 | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Professional and Technical Services | \$144,000 | \$161,000 | \$309,000 | \$469,000 | \$160,000 |
| Property Services | 319,000 | 280,000 | 243,000 | 252,000 | 9,000 |
| Travel and Meeting Expenses | 54,000 | 44,000 | 24,000 | 35,000 | 11,000 |
| Communication Costs | 64,000 | 76,000 | 47,000 | 49,000 | 2,000 |
| Utility Services | 328,000 | 335,000 | 353,000 | 350,000 | (3,000) |
| Trade Services | 3,000 | 3,000 | 3,000 | 3,000 | 0 |
| Tuition Payments | 265,000 | 297,000 | 182,000 | 365,000 | 183,000 |
| Pupil Transportation | 1,000 | 0 | 0 | 29,000 | 29,000 |
| Other Purchased Services | 0 | 0 | 0 | 2,000 | 2,000 |
| Totals | <u>\$1,178,000</u> | <u>\$1,196,000</u> | <u>\$1,161,000</u> | <u>\$1,554,000</u> | <u>\$393,000</u> |

The School District contracted with a staffing firm to provide all of the School District's substitute teachers, custodians and bus aides for fiscal year 2005, which increases professional and technical services, property services and pupil transportation expenditures, respectively. Legal services will increase due to negotiations for the expiring classified contract. Tuition payments are anticipated to increase because the number of special education students increased from seven in fiscal year 2004 to sixteen in fiscal year 2005.

D. - Supplies and Materials

Supplies and materials are comprised of the following:

| | Actual Fiscal Year 2002 | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|--|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| General Supplies | \$299,000 | \$201,000 | \$158,000 | \$170,000 | \$12,000 |
| Textbooks | 75,000 | 136,000 | 168,000 | 37,000 | (131,000) |
| Periodical, Newspaper, Film and Filmstrips | 9,000 | 5,000 | 2,000 | 3,000 | 1,000 |
| Food and Related Supplies and Materials | 0 | 1,000 | 1,000 | 2,000 | 1,000 |
| Supplies and Materials for Operation | 172,000 | 139,000 | 141,000 | 152,000 | 11,000 |
| Totals | <u>\$555,000</u> | <u>\$482,000</u> | <u>\$470,000</u> | <u>\$364,000</u> | <u>(\$106,000)</u> |

In order to cut costs, the School District has limited textbook purchases to what is absolutely necessary for the current year. The general supplies amount increased because spending was reduced in the prior year. The increase in supplies and materials for operations is due to the increase in fuel prices for buses.

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

E. - Capital Outlay

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

The \$40,000 increase in capital outlay from fiscal year 2004 is due to the School District upgrading software for computer systems in accordance with the technology plan. The School District has a permanent improvement fund that generates approximately \$455,000 annually. The School District uses this fund to make all other capital expenditures.

F. - Debt Service

General fund supported debt consists of a \$490,000 energy conservation note and a three year, \$610,000 tax anticipation note. The total principal and interest that will be paid for fiscal year 2005 is as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------|------------------|-----------------|------------------|
| Energy Conservation Note | \$70,000 | \$2,000 | \$72,000 |
| Tax Anticipation Note | 205,000 | 13,000 | 218,000 |
| Totals | <u>\$275,000</u> | <u>\$15,000</u> | <u>\$290,000</u> |

G. - Other Objects

Other object expenditures consist of dues and fees. Other object expenditures are forecasted in the amount of \$555,000. The \$13,000 increase from fiscal year 2004 is due to a new fee the Department of Taxation is charging for the administration of property taxes.

H. - Operating Transfers and Advances Out

For fiscal year 2005 a \$120,000 transfer from the general fund to the permanent improvement fund is forecasted. The \$120,000 was donated by a community group which requires that the money be spent on equipment for the School District's students. There will also be a transfer to cover any EMIS expenditures that are not covered by the EMIS State grant. There are no advances expected for fiscal year 2005.

Note 7 - Encumbrances

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

Encumbrances for purchased services, supplies and materials, capital outlay and other objects for fiscal year ended June 30, 2004 were \$157,000 and are forecasted at \$140,000 for June 30, 2005.

Huron City School District
Erie County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 8 - 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.

A. - Textbooks and Instructional Materials

The set aside requirement for fiscal year 2005 is \$228,000. The School District anticipates \$207,000 in qualifying disbursements during the current fiscal year and there was an excess of qualified expenditures of \$363,000 from the prior fiscal year; therefore, no reserve for textbooks and instructional materials is forecasted.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2005 is \$228,000. The School District will have \$455,000 in offsets and \$50,000 in qualifying disbursements during the current fiscal year; therefore, no reserve for capital acquisition is forecasted.

C. - Budget Reserve

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish and appropriate money for budget stabilization. The monies on hand in the School District's budget reserve may, at the discretion of the Board, be returned to the School District's general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The bill placed special restrictions on any Bureau of Workers' Compensation monies remaining in the budget reserve setaside. The School District anticipates spending the existing balance in the budget reserve during the forecast period to offset their deficit.

D. - Bus Purchases

At June 30, 2004, the School District had \$31,000 in unspent bus monies. The School District anticipates receiving \$10,000 in a bus purchase allowance during fiscal year 2005. The School District does not plan on any bus purchases during the current fiscal year leaving a reserve balance of \$41,000.

Note 9 - Levies

The School District has placed a 6.9 mill emergency levy on the November 2, 2004 ballot. If passed, the levy will generate approximately \$973,250 in fiscal year 2005 and \$2,100,000 in each fiscal year thereafter in which there is a full year of collection. In the past ten years, the School District has placed several levies on the ballot. The type of levy, millage amount, term and election results are as follows:

Huron City School District
 Erie County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2005

| Date | Type | Amount | Term | Election Results |
|---------------|-----------------------|-------------|------------|------------------|
| May 1994 | Emergency | \$400,000 | 5 Years | Passed |
| March 1996 | Permanent Improvement | 3 mills | 5 Years | Passed |
| February 1997 | Operating | 7.9 mills | Continuing | Failed |
| May 1997 | Operating | 5.9 mills | 3 Years | Passed |
| May 1999 | Emergency | \$400,000 | 5 Years | Passed |
| November 2000 | Operating | 5.9 mills | 3 Years | Passed |
| May 2001 | Permanent Improvement | 3 mills | 5 Years | Passed |
| November 2002 | Operating | 5.9 mills | 3 Years | Passed |
| November 2003 | Emergency | \$1,310,000 | 5 Years | Failed |
| March 2004 | Emergency | \$2,100,000 | 5 Years | Failed |
| August 2004 | Emergency | \$400,000 | 5 Years | Passed |
| August 2004 | Emergency | \$2,100,000 | 5 Years | Failed |

Note 10 - 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.

Note 11 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.



**Auditor of State
Betty Montgomery**

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HURON CITY SCHOOL DISTRICT

ERIE 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
OCTOBER 14, 2004**