



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Ledgemont Local School District
Geauga County

Fiscal Emergency Termination

Local Government Services Division

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

FISCAL EMERGENCY TERMINATION

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CERTIFICATION

Pursuant to a request to the Auditor of State by the Ledgemont Local School District Financial Planning and Supervision Commission, the Auditor of State has determined that the Ledgemont Local School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, and the Ledgemont Local School District has met the requirements of Section 3316.16, Revised Code, for termination of the Ledgemont Local School District Financial Planning and Supervision Commission. Therefore, the existence of the Ledgemont Local School District Financial Planning and Supervision Commission and its role in the operation of the Ledgemont Local School District is terminated as of April 11, 2002.

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

Accordingly, on behalf of the Auditor of State, this report is hereby submitted to the Ledgemont Local School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Tracy Jemison, Geauga County Auditor and Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

April 11, 2002

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Report on Termination of the Ledgemont Local School District
Financial Planning and Supervision Commission**

At the request of the Financial Planning and Supervision Commission (the Commission) of the Ledgemont Local School District (the School District), Geauga County, the Auditor of State has performed an analysis to determine whether this Commission and its functions should be terminated.

The Declaration of Fiscal Emergency

The Auditor of State conducted an analysis of the Ledgemont Local School District, dated October 15, 1996, to determine whether the School District met the conditions for fiscal watch. The results of the analysis were as follows:

1. The Auditor of State certified an operating deficit for the general fund in the amount of \$579,000, which exceeded eight percent of the general fund revenues of the prior fiscal year;
2. The Ledgemont Local School District's unencumbered cash balance for the preceding fiscal year was \$159,000, which was less than eight percent of the preceding fiscal year expenditures; and,
3. The School District had not passed a levy that would eliminate the first two conditions.

Section 3316.02(B)(2) of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal emergency if the district board of education fails, pursuant to Section 3316.04 of the Ohio Revised Code, to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch.

On March 27, 1997, the Auditor of State declared the Ledgemont Local School District in Fiscal Emergency based on correspondence from the State Superintendent of Public Instruction dated March 17, 1997, which indicated that the Ledgemont Local Board of Education was unable to present a financial plan acceptable to the State Superintendent of Public Instruction pursuant to Section 3316.04 of the Ohio Revised Code.

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

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

The results of the analysis performed by the Auditor of State in determining if the Commission will continue to exist are as follows:

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Report on Termination of the Ledgemont Local School District
Financial Planning and Supervision Commission**

The Financial Accounting and Reporting Systems

The Auditor of State, in accordance with Section 3316.10, Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the Ledgemont Local School District (the School District) and issued a Accounting Report, dated September 15, 1997. The report identified areas where the School District's financial accounting and reporting system were not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State. The Board of Education was required to promptly bring its existing financial accounting and reporting system into compliance with Section 117.43 of the Ohio Revised Code.

The criteria for termination of the Commission and the fiscal emergency condition includes a determination of whether an effective financial accounting and reporting system as been implemented or is in the process of being implemented, and is expected to be completed within in two years. This determination included management providing a written assessment of the issues that were identified in the Financial Accounting Report. Our responsibility is to determine, based on inquiries, observations, and a review of other financial reports, whether management has in place an effective financial accounting and reporting system, which includes the correction those issues Financial Accounting Report. A summary of management's assessment of those issues is presented below:

Budgetary Process

Not Implemented

- The School District has not implemented a procedure to monitor appropriations. The School District plans to implement procedures for monitoring appropriations which will identify accounts that may require appropriation adjustments, obtain Board approval when necessary, and prevent the posting of any adjustment prior to proper authorization.

Revenue Activity

- When the School District deposits monies, the Treasurer receives a pay-in cover sheet which references the receipt numbers. Attached to the pay-in cover sheet is a copy of the receipts. Included on the receipt are the check numbers. The check numbers are included on the deposit slips as well. A copy of the pay-in cover sheet and receipts are included with a copy of the deposit slip.
- The Superintendent's Secretary opens the mail and informs the Treasurer if checks are included. The Treasurer and Assistant Treasurer write the receipts. The Assistant Treasurer makes the deposits on a daily basis.
- On a random basis, the Treasurer will request receipts books from the building secretaries to ensure that receipts match the deposit.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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Purchasing Process

Not Implemented

- The School District has not implemented a procedure whereby purchase orders will only be processed against proper accounts with sufficient appropriations to cover them.

Cash Disbursements and Payroll

- When an invoice amount is greater than the amount of the purchase order by any amount, the Treasurer returns the invoice to the individual who wrote the original requisition and inquires about the discrepancy. Once the discrepancy has been resolved, the invoice is approved for payment by the Treasurer and is approved by the Board. A “Then and Now Certification” is written on the purchase order, to indicate that the appropriations were available both when the invoice and purchase order were generated.
- All checks are kept in a locked cabinet in the Treasurer’s office. Only the Treasurer, Assistant Treasurer and Superintendent’s Secretary have a key to the cabinet.

Debt Activity

- The School District has not received any assistance through State borrowing since fiscal year 1998. The only School District debt that is repaid through the general fund are the energy conservation notes. These notes are paid from general fund tax revenues.

Fixed Assets

- The School District adopted a fixed asset policy as of April 12, 1999.

Financial Reporting

- The School District has prepared and filed GAAP statements since the fiscal year ended June 30, 1997.

In a resolution adopted March 11, 2002, the Ledgemont Local School District Board of Education directed the Treasurer to implement all of “not implemented” items noted above.

Management Letter

- The EMIS Director at the School District prepares the count sheets for attendance that are reconciled to the ADM on the EMIS report.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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**Report on Termination of the Ledgemont Local School District
Financial Planning and Supervision Commission**

Not Implemented

- The School District plans to process cash requests for grant monies in a more timely manner in order to receive all grant monies in the current fiscal year so expenditures in that fund will be covered. If grant monies are not received by year end, the School District will advance monies from the general fund to cover expenditures in the funds.

The Fiscal Emergency Conditions

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

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

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

1. The School District no longer has an operating deficit in the general fund.
2. Once declared in fiscal emergency, the School District was not required to submit a plan to the State Superintendent of Public Instruction.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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**Report on Termination of the Ledgemont Local School District
Financial Planning and Supervision Commission**

3. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.
4. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.

The Financial Recovery Plan

We obtained a copy of the latest financial recovery plan of the School District, dated December 14, 1998, and interviewed the Treasurer of the School District and received information from the Chairperson of the Financial Planning and Supervision Commission. The key provisions of the financial plan are as follows:

1. Passage of a five-year, 9.85 mill emergency levy.
2. Personnel reductions.
3. Transportation reductions.
4. Investigation of restructuring of outstanding debt.
5. Submission of levy to voters by November 1999.

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

1. Passage of the 9.85 mill emergency levy and the .75% income tax levy in November 1997 and November 2001, respectively, as shown below:

Date	Type	Amount	Term
November 1997	Emergency Operating Levy	9.85 Mills	5 Years
November 2001	Income Tax Levy	.75%	7 Years

2. Personnel reductions.

Fiscal Year 1997	Reduction of one assistant mechanic	\$10,000
	Elimination of custodial overtime	2,000
Fiscal Year 1998	Reduction of one teacher and five librarians	63,000
	Reduction of three supplemental staff	10,000
	Reduction of three substitute classified staff	15,000
	Reduction of two part-time classified staff	21,000
	Staff agreed to defer a wage increase	100,000
Total		\$221,000

3. Reduction of transportation expenditures in the amount of \$40,000 during fiscal year 1997.

During fiscal years 1999 and 2000, no further reductions in expenditures could be made in the School District. The Commission focused on maintaining costs and investigating revenue enhancements.

Debt restructuring was investigated and found not to be the best course of action for the School District.

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Report on Termination of the Ledgemont Local School District
Financial Planning and Supervision Commission**

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2002 through 2006, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District's five year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the forecast period. The Auditor of State, in a report dated March 4, 2002, rendered a "nonadverse" opinion on the financial forecast.

Conclusion

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

1. The School District has adopted and implemented, or is in the process of implementing, policies for a sound accounting and reporting system; however, the Auditor of State will monitor the progress to insure full implementation within a two year period;
2. The School District has corrected or eliminated all the fiscal emergency conditions and it appears that, based on the five year financial forecast, the School District will remain out of fiscal emergency;
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is "nonadverse".

Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the Ledgemont Local School District and its functions may be terminated.

It is understood that this report's determination is for the use of the Ledgemont Local School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Tracy Jemison, Geauga County Auditor, and Susan Tave Zelman, State Superintendent of Public Instruction, and others as designated by the Auditor of State, and is not to be used for any other purpose.

DISCLAIMER

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

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APPENDIX A

**Ledgemont Local School District
Geauga County**

Financial Forecast

For the Fiscal Years Ending June 30, 2002 Through 2006

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**Ledgemont Local School District
Geauga County**

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Board of Education
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16200 Burrows Road
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Independent Accountant's Report

We have examined the accompanying forecasted schedule of revenues, expenditures, and changes in fund balance of the general fund of the Ledgemont Local School District for the fiscal years ending June 30, 2002 through 2006. The Ledgemont Local 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 the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for managements 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 financial statements for the years ended June 30, 1999 and 2000 were audited by the Auditor of State's Office and we rendered an unqualified opinion for the years ended June 30, 1999 and 2000 in reports dated December 12, 2000. We have not performed any auditing procedures since.

We have compiled the accompanying schedule of revenues, expenditures, and changes in fund balance of the general fund of Ledgemont Local School District for the fiscal year ended June 30, 2001 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 a the representation of management. We have not audited or reviewed this financial statement and, accordingly, do not express an opinion or any other form of assurance on it.

JIM PETRO
Auditor of State

March 4, 2002

LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY
Schedule of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 1999, 2000 and 2001 Actual;
Fiscal Years Ending June 30, 2002 through June 30, 2006 Forecasted
General Fund

	Fiscal Year 1999 Actual	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Forecasted
Revenues				
General Property Tax (Real Estate)	\$1,900,000	\$1,979,000	\$1,994,000	\$1,996,000
Tangible Personal Property Tax	203,000	221,000	247,000	244,000
Income Taxes	0	0	0	34,000
Unrestricted Grants-in-Aid	1,826,000	1,979,000	2,030,000	2,144,000
Restricted Grants-in-Aid	22,000	13,000	0	55,000
Property Tax Allocation	235,000	253,000	252,000	256,000
All Other Revenues	307,000	370,000	327,000	306,000
<i>Total Revenues</i>	4,493,000	4,815,000	4,850,000	5,035,000
Other Financing Sources				
Advances In	5,000	0	0	0
<i>Total Revenues and Other Financing Sources</i>	4,498,000	4,815,000	4,850,000	5,035,000
Expenditures				
Personal Services	2,294,000	2,459,000	2,449,000	2,625,000
Employees' Retirement/Insurance Benefits	710,000	703,000	734,000	758,000
Purchased Services	851,000	862,000	1,030,000	1,025,000
Supplies and Materials	154,000	173,000	177,000	183,000
Capital Outlay	65,000	72,000	93,000	68,000
Debt Service:				
Principal-Notes	15,000	15,000	20,000	20,000
Principal-Solvency Assistance Advance	410,000	156,000	0	0
Principal-Spending Reserve	93,000	0	0	0
Interest and Fiscal Charges	29,000	8,000	4,000	2,000
Other Objects	88,000	80,000	84,000	92,000
<i>Total Expenditures</i>	4,709,000	4,528,000	4,591,000	4,773,000
Other Financing Uses				
Operating Transfers-Out	0	0	5,000	5,000
<i>Total Expenditures and Other Financing Uses</i>	4,709,000	4,528,000	4,596,000	4,778,000
<i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i>	(211,000)	287,000	254,000	257,000
<i>Cash Balance July 1</i>	407,000	196,000	483,000	737,000
<i>Cash Balance June 30</i>	196,000	483,000	737,000	994,000
Less Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	79,000	94,000	168,000	68,000
Reservations of Fund Balance				
Textbooks and Instructional Materials	0	0	0	40,000
Budget Reserve	23,000	23,000	23,000	0
Capital Improvement and Maintenance	0	37,000	11,000	14,000
Bus Purchases	1,000	0	0	0
<i>Total Reservations of Fund Balance</i>	24,000	60,000	34,000	54,000
<i>Unencumbered/Unreserved Fund Balance June 30</i>	\$93,000	\$329,000	\$535,000	\$872,000

See accompanying summary of significant forecast assumptions and accounting policies

Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted	Fiscal Year 2005 Forecasted	Fiscal Year 2006 Forecasted
\$1,788,000	\$1,561,000	\$1,577,000	\$1,593,000
228,000	225,000	222,000	219,000
423,000	663,000	661,000	661,000
2,187,000	2,230,000	2,275,000	2,321,000
95,000	135,000	175,000	215,000
228,000	200,000	202,000	204,000
309,000	312,000	315,000	318,000
5,258,000	5,326,000	5,427,000	5,531,000
0	0	0	0
5,258,000	5,326,000	5,427,000	5,531,000
2,730,000	2,839,000	2,952,000	3,070,000
796,000	836,000	878,000	921,000
1,046,000	1,067,000	1,088,000	1,110,000
187,000	190,000	194,000	198,000
69,000	71,000	72,000	73,000
20,000	0	0	0
0	0	0	0
0	0	0	0
1,000	0	0	0
93,000	94,000	95,000	96,000
4,942,000	5,097,000	5,279,000	5,468,000
0	0	0	0
4,942,000	5,097,000	5,279,000	5,468,000
316,000	229,000	148,000	63,000
994,000	1,310,000	1,539,000	1,687,000
1,310,000	1,539,000	1,687,000	1,750,000
50,000	50,000	50,000	50,000
77,000	108,000	132,000	154,000
0	0	0	0
17,000	12,000	0	0
0	0	0	0
94,000	120,000	132,000	154,000
\$1,166,000	\$1,369,000	\$1,505,000	\$1,546,000

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEOUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the Ledgemont Local 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 March 4, 2002, 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 2 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also 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 of the emergency levy fund, textbook subsidy fund and and balances of 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, 1999 and 2000. These differences are as follows:

	Fiscal Year 1999	Fiscal Year 2000
<u>Revenues and Other Sources</u>		
General Fund as Previously Reported	\$4,374,000	\$4,795,000
Textbook Subsidy	10,000	0
Debt Service Activity Related to General Fund Supported Debt	114,000	20,000
Total Revenues and Other Sources per Forecast	4,498,000	4,815,000
<u>Expenditures and Other Uses</u>		
General Fund as Previously Reported	4,669,000	4,592,000
Textbook Subsidy	5,000	10,000
Debt Service Activity Related to General Fund Supported Debt	114,000	20,000
Less Encumbrances	(79,000)	(94,000)
Total Expenditures and Other Uses per Forecast	\$4,709,000	\$4,528,000

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

	Fiscal Year 1999	Fiscal Year 2000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(\$211,000)	\$287,000
Cash Fund Balance at Beginning of Fiscal Year	407,000	196,000
Cash Fund Balance at End of Fiscal Year	196,000	483,000
Encumbrances at Fiscal Year End	(79,000)	(94,000)
Unencumbered Fund Balance at Fiscal Year End	\$117,000	\$389,000

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 measurable and available, 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

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 expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - 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.

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

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 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

Agency Funds - 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 fund, function, object level for the general, permanent improvement and food service funds and at the fund, object level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

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

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

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

Note 4 - General Operating Assumptions

The Ledgemont Local 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, tangible personal property taxes, and trailer taxes. Advances may be requested from the Geauga County Auditor 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 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:

<u>Tax Levies</u>	<u>Year Approved</u>	<u>Last year of Collection</u>	<u>Full Tax Rate (Mills)</u>
Operating (including inside millage)	1976 and Prior	Continuing	\$25.40
Operating	1980	Continuing	4.50
Operating	1988	Continuing	7.90
Operating	1992	Continuing	8.90
Emergency	1997	2002	9.85
Total Tax Rate			<u>\$56.55</u>

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and trailer taxes. The amount shown in the revenue section of the forecast schedules represent gross property tax revenue. The forecasted general property tax revenue is based upon actual receipts for fiscal year 2002 and information provided by the Geauga County Auditor. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account. Based upon this information, the School District anticipates receiving \$1,996,000 in real estate tax revenue in fiscal year 2002, a \$2,000 increase from fiscal year 2001.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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The School District anticipates increases of approximately one percent in general property tax revenue each year due to increased property valuations and new construction. Beginning in fiscal year 2003, the School District will no longer receive revenue from the 9.85 mill, 5 year levy, which generated approximately \$500,000 annually. The School District will not attempt to renew this levy.

The School District has assumed in the forecast that they will not be materially affected by Senate Bill 3, as amended by Senate Bill 287, with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). The Ohio Department of Taxation estimated for the forecasted period a decline of approximately \$51,000 in property tax revenue each year, starting in fiscal year 2002. The School District will be reimbursed the full amount of the loss which is recorded under unrestricted grants-in-aid revenue.

Tangible Personal Property Tax - Tangible personal property tax revenues are generated from the property used in business and a portion of the public utility personal property tax revenue. As with general property taxes, tangible personal property tax and public utility personal property tax revenues are based upon information provided by the Geauga County Auditor. Based upon these estimates, the School District anticipates receiving \$244,000 in tangible personal property tax revenue for fiscal year 2002 which is a \$3,000 decrease from fiscal year 2001.

B. - Income Taxes

In November 2001, the voters passed a .75 percent school income tax levy. Collection of the tax begins in April 2002, and is a seven-year tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

For fiscal year 2002, the School District anticipates receiving \$34,000 in income taxes. Fiscal year 2003 will be the first full year of collections of the income tax; therefore, a large increase is anticipated. Income tax revenue is based on information from the Ohio Department of Taxation.

C. - 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, vocational education, and preschool units.

In 2002, State law set the base cost per pupil at \$4,814 and increased the rate each year thereafter to \$4,949 for fiscal year 2003, \$5,088 for fiscal year 2004, \$5,230 for fiscal year 2005 and \$5,376 for fiscal year 2006.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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The anticipated state foundation revenue for fiscal year 2002 of \$2,144,000 is based on current estimates provided by the Ohio Department of Education. Forecasted amounts for fiscal years 2003 through 2006 are also based upon estimates provided by the Ohio Department of Education. Foundation amounts reflect approximately a two percent increase each fiscal year based upon increases in per pupil funding, increases in ADM, and increases in property values.

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 property tax revenue loss. Reimbursements are to be made twice a year starting in February 2002.

The School District is anticipating \$51,000 in public utility reimbursements during the forecast period, which is based on information provided by the Ohio Department of Taxation.

D. - Restricted Grants-in-Aid

Restricted grants-in-aid for fiscal year 2002 consists of a bus purchase allowance and parity aid in the amount of \$15,000, and \$40,000, respectively. The School District anticipates the bus purchase allowance to remain consistent through fiscal year 2006.

The School District will receive 20 percent of their full amount of parity aid in fiscal year 2002. State law increases the parity aid distribution by 20 percent each year with full distribution in fiscal year 2006.

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 above (rollback and homestead). The property tax allocation, based on historical trends, is forecasted at 12.8 percent of general property taxes.

F. - All Other Revenues

All other revenues include tuition, classroom fees, transportation, earnings on investments, miscellaneous receipts from local sources, sale of assets and compensation for lost books. In fiscal years 2001 and 2002, tuition payments and vocational education allocations have decreased. These revenues are anticipated to increase one percent each year for the remaining forecast period.

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

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

Note 6 - 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, overtime, severance pay and board members' compensation. All employees receive their compensation on a bi-weekly basis. The certified, classified, and administrative staff levels are expected to increase during the forecast period, based on enrollment, even though the School District has cut staff in the past.

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 September 1, 2000, to August 31, 2003, and allows for a two percent increase in each year, with the increase for fiscal year 2001 being retroactively added to fiscal year 2002. Classified staff salaries are also based on a negotiated contract which includes base and step increases. The contract covers the period from July 1, 2000 to June 30, 2003, and allows for two percent increase in each year with the increase for fiscal year 2001 being retroactively added to fiscal year 2002. Administrative salaries are set by the Board of Education.

The School District offers severance pay to its employees of up to one-fourth of the accumulated sick leave to a maximum of 65 days for certified and classified employees.

Salaries forecasted for fiscal year 2003 are based on current negotiated contracts. For fiscal years 2004 through 2006, the expenditures for personal services include base, step and educational increases anticipated under future negotiated contracts.

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, the monthly premiums, and anticipated increases during the forecast period. The premiums for single and family coverage are set by contract and renewed annually. The premiums for fiscal year 2002 have increased nearly 12 percent over the prior period. For fiscal years 2003 through 2006, health care costs are anticipated to increase by five percent annually, based on historical trends.

Medicare benefits are based on the employers' rate of 1.45 percent and the payroll costs for contributing staff. The School District participates in the State Workers' Compensation system, which is based on the School District's rate and the actual salaries for the premium period.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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C. - Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. There was a 20 percent increase in fiscal year 2001, primarily due to increased legal fees for contract negotiations and increased tuition costs to other school districts. The School District is anticipating an increase of approximately two percent for fiscal years 2003 through 2006. The increase will be due to contract negotiations for classified and certified employees as the current contracts will expire in fiscal year 2003. In addition, increases are anticipated in tuition payments to other school districts.

D. - Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, dispensary supplies, software materials, textbooks, and supplemental textbooks. These expenditures are anticipated to increase by approximately two percent annually.

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 governmental services is to report the expenditure of resources, not costs.

The School District purchased two school buses in fiscal year 2001 and one in fiscal year 2002. The School District anticipates purchasing one school bus each year in fiscal years 2003 through 2006.

Based on historical trends in the School District, these expenditures are anticipated to increase approximately one percent during the remainder of the forecast period.

F. - Debt Service

The School District's debt service expenditures are for the repayment of an energy conservation (HB 264) note issued in 1993. The notes bear interest of six percent.

G. - Other Objects

This account includes dues, fees, liability insurance and other miscellaneous goods and services not otherwise classified in another account. For fiscal year 2002, the School District is projecting \$92,000 of expenditures in this area. The increase is due primarily to increased audit costs and County Board deduction. These expenditures are anticipated to increase approximately one percent in fiscal years 2003 through 2006, based on an analysis of projected expenditures and the School District's anticipated cost increases.

H. - Operating Transfers and Advances Out

During fiscal year 2002, the School District anticipates a transfer out to the EMIS fund. The School District does not anticipate any necessary transfers out or advances out to other funds during fiscal years 2003 through 2006.

**LEDGEMONT LOCAL SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

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 balance.

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2001 were \$168,000 and are forecasted at \$68,000 for June 30, 2002. For the forecasted period, the State Teachers' Retirement Advance is excluded, due to a change in the reporting requirements of the State Teachers' Retirement System, which no longer requires the advance to be encumbered. Encumbrances are forecasted at \$50,000 during fiscal years 2003 through 2006.

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 future years.

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 School District had no carryover balance. The set aside amount for fiscal year 2002 is \$107,000. Qualifying expenditures in the amount of \$67,000 are anticipated. The amount not spent will be carried forward increasing the textbook and instructional material reserve to \$40,000 at the end of fiscal year 2002.

For fiscal years 2003 through 2006, the annual qualifying expenditures will not exceed the three percent contribution. Therefore, the School District textbook and instructional materials reserve requirement is projected at \$77,000 for fiscal year 2003, \$108,000 for fiscal year 2004, \$132,000 for fiscal year 2005 and \$154,000 for fiscal year 2006.

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 proceeds of the permanent improvement levy are used to offset the required set aside amount. The School District had a carryover balance of \$11,000. The set aside amount for fiscal year 2002 is \$107,000. Offsets in the amount of \$35,000 and qualifying expenditures in the amount of \$69,000 are anticipated. The amount not spent will be carried forward increasing the capital acquisition and improvements reserve to \$14,000 at the end of fiscal year 2002.

For fiscal years 2002 through 2004, the annual qualifying offsets and expenditures will not exceed the set-aside requirement and the carryover balance. Therefore, the School District capital acquisition and improvements reserve requirement is projected at \$14,000 for fiscal year 2002, \$17,000 for fiscal year 2003, and \$12,000 for fiscal year 2004. For fiscal years 2005 and 2006, the School District anticipates offsets and qualifying expenditures to exceed the set-aside requirement and any carryover balance; therefore, no reserve for capital acquisition and improvements is forecasted.

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

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 conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve set aside. The School District passed a resolution on December 11, 2001, allowing for the budget reserve to be used for expenditures on school facility construction or renovation, textbooks or other instructional materials, including science equipment or laboratories, school bus purchases or professional development of teachers.

Note 9 - Levies

The School District does not plan to place any levies on the ballot during the forecast period. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November 1991	Income Tax	.5 percent	5 Years	Failed
June 1992	Operating	10.9 mills	Continuing	Failed
November 1992	Operating	8.9 mills	Continuing	Passed
May 1994	Operating	9.7 mills	Continuing	Failed
May 1995	Operating	18.9 mills	Continuing	Failed
November 1996	Emergency Operating	9.7 mills	5 Years	Failed
February 1997	Emergency Operating	9.1 mills	5 Years	Failed
May 1997	Emergency Operating	9.85 mills	5 Years	Passed
May 1999	Income Tax	.1 percent	Continuing	Failed
November 1999	Income Tax	.5 percent	5 Years	Failed
March 2000	Income Tax	.75 percent	Continuing	Failed
November 2000	Income Tax	.75 percent	7 Years	Failed
November 2001	Income Tax	.75 percent	7 Years	Passed

Note 10 - Pending Litigation

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

**LEDGEMONT LOCAL SCHOOL DISTRICT
GEOUGA COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

Note 11 - State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of March 4, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of March 4, 2002, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial statements.



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OFFICE OF THE AUDITOR

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LEDGEMONT LOCAL SCHOOL DISTRICT

GEAUGA 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
APRIL 11, 2002**