



**Auditor of State  
Betty Montgomery**

**Struthers City School District  
Mahoning County, Ohio**

**Financial Forecast  
For the Fiscal Year Ending June 30, 2006**

**Local Government Services Section**

Struthers City School District  
Mahoning County

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**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  
Struthers City School District  
99 Euclid Avenue  
Struthers, Ohio 44471

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.03, 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 Struthers City School District, Mahoning County, Ohio, and issued a report dated February 10, 2006. 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 surplus for the fiscal year ending June 30, 2006 of \$26,000.

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 2007 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 surplus may be increased to the extent tax advances are received prior to June 30, 2006 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 2006.

BETTY MONTGOMERY  
Auditor of State

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

Peter R. Sorem  
Chief of Local Government Services

February 16, 2006

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**Auditor of State  
Betty Montgomery**

Board of Education  
Struthers City School District  
99 Euclid Avenue  
Struthers, Ohio 44471

**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 Struthers City School District for the fiscal year ending June 30, 2006. The Struthers City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying financial forecast has been prepared assuming the Struthers City School District will continue as a going concern. The School District experienced an operating deficit for the fiscal year ended June 30, 2004, obtained a solvency assistance advance of \$1,907,000 against future State revenues to finance fiscal year 2005 operations, and has not obtained voter approval for an additional general fund operating levy. In addition, the School District was declared in Fiscal Emergency status (see Note 13) on May 11, 2005. Management's plans have not been sufficient to eliminate the future deficits. These issues raise substantial doubt about the School District's ability to continue as a going concern. The financial forecast does not include any adjustments that might result from the outcome of this uncertainty.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery  
Auditor of State

December 21, 2005

STRUTHERS CITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 THROUGH 2005 ACTUAL;  
FOR THE FISCAL YEAR ENDING JUNE 30, 2006 FORECASTED  
GENERAL FUND

	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Forecasted
<b>Revenues</b>				
General Property Tax (Real Estate)	\$3,500,000	\$3,503,000	\$3,633,000	\$3,710,000
Tangible Personal Property Tax	449,000	517,000	449,000	553,000
Unrestricted Grants-in-Aid	8,175,000	8,915,000	9,347,000	9,535,000
Restricted Grants-in-Aid	1,100,000	744,000	761,000	619,000
Property Tax Allocation	560,000	562,000	555,000	578,000
All Other Revenues	268,000	194,000	220,000	740,000
<i>Total Revenues</i>	<u>14,052,000</u>	<u>14,435,000</u>	<u>14,965,000</u>	<u>15,735,000</u>
<b>Other Financing Sources</b>				
Tax Anticipation Notes	0	500,000	850,000	0
Solvency Assistance Advance	0	0	1,907,000	0
Advances In	0	0	0	37,000
<i>Total Other Financing Sources</i>	<u>0</u>	<u>500,000</u>	<u>2,757,000</u>	<u>37,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>14,052,000</u>	<u>14,935,000</u>	<u>17,722,000</u>	<u>15,772,000</u>
<b>Expenditures</b>				
Personal Services	8,241,000	8,844,000	9,028,000	8,597,000
Employees' Retirement/Insurance Benefits	3,440,000	3,650,000	3,825,000	3,770,000
Purchased Services	1,716,000	2,164,000	1,938,000	1,831,000
Supplies and Materials	420,000	545,000	339,000	210,000
Capital Outlay	665,000	434,000	27,000	58,000
Debt Service:				
Principal - State Loan	206,000	217,000	228,000	240,000
Principal - HB 264 Loan	21,000	22,000	23,000	24,000
Principal - Solvency Assistance Loan	0	0	0	954,000
Principal - Tax Anticipation Note	0	500,000	850,000	0
Interest	57,000	47,000	48,000	20,000
Other Objects	131,000	193,000	150,000	153,000
<i>Total Expenditures</i>	<u>14,897,000</u>	<u>16,616,000</u>	<u>16,456,000</u>	<u>15,857,000</u>
<b>Other Financing Uses</b>				
Operating Transfers Out	1,000	5,000	5,000	18,000
<i>Total Expenditures and Other Financing Uses</i>	<u>14,898,000</u>	<u>16,621,000</u>	<u>16,461,000</u>	<u>15,875,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(846,000)	(1,686,000)	1,261,000	(103,000)
Cash Balance (Deficit) July 1	1,584,000	738,000	(948,000)	313,000
Cash Balance (Deficit) June 30	<u>738,000</u>	<u>(948,000)</u>	<u>313,000</u>	<u>210,000</u>
<b>Encumbrances and Reserves</b>				
Actual/Estimated Encumbrances June 30	438,000	165,000	148,000	157,000
Reservations of Fund Balance for:				
Capital Improvements	0	0	150,000	7,000
Bus Purchase	4,000	2,000	11,000	20,000
Total Encumbrances and Reserves of Fund Balance	<u>442,000</u>	<u>167,000</u>	<u>309,000</u>	<u>184,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>\$296,000</u>	<u>(\$1,115,000)</u>	<u>\$4,000</u>	<u>\$26,000</u>

See accompanying summary of significant forecast assumptions and accounting policies  
See accountants report

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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**Note 1 – The School District**

The Struthers City School District (School District) is located in Mahoning County and encompasses all of the City of Struthers and the area extending roughly five miles around the City. 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 five instructional buildings, an administrative building and a bus garage. The School District is staffed by 53 non-certified, 130 certified and 12 administrative personnel to provide services to 2,006 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Struthers 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 December 21, 2005, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 – Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance fund, disadvantaged pupil impact aid (DPIA) fund and general fund supported debt are included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget (non-GAAP) basis 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:

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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**Governmental Funds**

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

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

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

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

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

**Proprietary Funds**

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

Internal Service Funds - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost reimbursement basis.

**Fiduciary Funds**

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

**C. - Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary 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 Mahoning County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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

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

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

**Note 5 - General Operating Assumptions**

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

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

Property taxes consist of real property, public utility real and personal property and tangible personal property taxes. Property taxes are collected for, and distributed to, the school districts in the county by the Mahoning County Auditor and Treasurer. The School District may request advances from the Mahoning County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

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

The forecast excludes the receipt of any advances against fiscal year 2007 schedule 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 surplus may be increased to the extent advances are received prior to June 30, 2006 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 2006.



Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

The property tax revenues for the general fund 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:

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	\$3.90
Continuing Operating	1969	n/a	8.40
Continuing Operating	1970	n/a	5.30
Continuing Operating	1972	n/a	3.90
Continuing Operating	1972	n/a	3.30
Continuing Operating	1973	n/a	4.20
Continuing Operating	1981	n/a	5.00
Continuing Operating	1984	n/a	4.70
Continuing Operating	1993	n/a	5.00
Continuing Operating	1996	n/a	10.00
Total Tax Rate			<u>\$53.70</u>

The School District also has levies for bonded debt and classroom facilities totaling \$6.20 per \$1,000 of assessed valuation. The School District's total rate is \$59.90 per \$1,000 of 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 tax revenues as in the year in which the levy was approved. For all voted levies except emergency and debt levies, increases to revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually; the revenue generated by emergency levies is not affected by changes in property valuation. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. The effective residential and agricultural rate is \$36.74 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$46.42 per \$1,000 of assessed valuation for the collection year of 2006.

General Property Tax (Real Estate) – The general property tax revenue account appearing on the Statement includes real estate taxes, public utility property taxes and manufactured home taxes. The general property tax revenue estimate is based upon actual receipts and information provided by the Mahoning County Auditor's office. The School District anticipates an increase of \$136,000 from the prior fiscal year. The increase is due to an increase in assessed valuation due to new construction.

Tangible Personal Property Tax – Tangible personal property taxes have had several changes in the past several years. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Effective for tax years 2005 and 2006, the assessment rate on business inventory, currently at 23 percent, was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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Beginning in 2006, HB 66 will phase out by 25 percent each year tangible personal property tax on most businesses inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in 2009. Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the 2005 tangible personal property tax collections, will lose \$449,000 when the tangible personal property tax is completely phased out in 2009. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Intergovernmental Revenue below).

The State exempted the first \$10,000 in personal property from taxation. The State reimburses the City for the lost revenue. Beginning with tax year 2004, the State was phasing out the reimbursement by 10 percent each year. Under HB 66, the phase out of this reimbursement has been accelerated so that the final reimbursement will take place in fiscal year 2009. The reimbursement is included in intergovernmental revenue.

Tangible personal property tax is applied to property used in business (except for public utilities). Tangible personal property tax revenues are based upon information provided by the Mahoning County Auditor. Based upon these estimates, the School District anticipates an increase of \$104,000 from the previous fiscal year. Tangible personal property tax revenues include the actual settlement for October 2005 and an estimate of the June 2006 personal property tax settlement. The School District receives approximately 90 percent of the tangible personal property tax revenue in the October settlement. The effect of the tax changes on the June 2006 personal property settlement will not be significant to the personal property tax revenue for fiscal year 2006. The increase in revenue for the forecast period compared to the prior fiscal year is due to increases in assessed valuation partially offset by reductions in the percentages used to calculate the assessed valuation.

**B. - Unrestricted Grants-in-Aid**

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various 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 which are provided to address certain policy issues or correct flaws in formula aid are also included in this revenue.

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

<u>Fiscal Year</u>	<u>Per Pupil Foundation Level</u>
2003	\$4,949
2004	5,058
2005	5,169
2006	5,283

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

The anticipated unrestricted grants-in-aid for fiscal year 2006 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the December school foundation statement for fiscal year 2006 and the amounts for the last three fiscal years are as follows:

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
Formula Aid	\$7,363,000	\$7,301,000	\$7,278,000	\$7,278,000	\$0
Categorical Funding	463,000	558,000	611,000	676,000	65,000
Equity Aid	124,000	102,000	53,000	0	(53,000)
Transportation	276,000	314,000	272,000	278,000	6,000
Parity Aid	0	792,000	1,096,000	1,175,000	79,000
Foundation Adjustments	(102,000)	(211,000)	(21,000)	0	21,000
Total Foundation	8,124,000	8,856,000	9,289,000	9,407,000	118,000
Utility Deregulation	51,000	59,000	58,000	76,000	18,000
Bus Purchase Reimbursement	0	0	0	52,000	52,000
Total Unrestricted Grants-in-Aid	<u>\$8,175,000</u>	<u>\$8,915,000</u>	<u>\$9,347,000</u>	<u>\$9,535,000</u>	<u>\$188,000</u>

Formula Aid is anticipated to remain the same as the prior fiscal year because of the inclusion of \$60,000 in basic aid guarantee. The basic aid guarantee and an increase in per pupil funding offsets a loss of revenue due to a decline in ADM of 33. Categorical funding increased due to an increase in per pupil funding. Equity aid was phased out each year through fiscal year 2005. Parity aid continues its phase in with the percentage of the calculated amount going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and 100 percent in fiscal year 2006.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123<sup>rd</sup> General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August.

During fiscal year 2006, the School District applied for and was awarded a grant that enables the School District to be reimbursed for the purchase of a bus. The bus was purchased during the current fiscal year and must be used for non-public transportation purposes only. A reimbursement of \$52,000 is forecasted in fiscal year 2006.

**C. - Restricted Grants-in-Aid**

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance/DPIA monies. For fiscal year 2006, the School District anticipates \$10,000 in bus purchase allowance, \$8,000 in career tech monies and \$601,000 in Poverty Based Assistance monies which replaced the DPIA program. A \$142,000 decrease is anticipated from the prior year due primarily to the School District receiving less career tech monies.

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

**D. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills for residential real property only. 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 Mahoning County Auditor, is anticipated to increase \$3,000 from fiscal year 2005. The increase is due to the inclusion of reimbursements for lost personal property tax revenue offset by the elimination of the 10 percent rollback on commercial and industrial property.

**E. - All Other Revenues**

Presented below is a comparison of all other revenue for the last three fiscal years and the forecast period:

Revenue Sources	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Tuition	\$97,000	\$82,000	\$105,000	\$642,000	\$537,000
Interest on Investments	67,000	39,000	30,000	35,000	5,000
Rentals	32,000	27,000	25,000	26,000	1,000
Other Revenue	72,000	45,000	52,000	36,000	(16,000)
Medicaid Administrative Claims Program	0	0	7,000	0	(7,000)
Refund of Prior Year Expenditures	0	1,000	1,000	1,000	0
<b>Totals</b>	<b>\$268,000</b>	<b>\$194,000</b>	<b>\$220,000</b>	<b>\$740,000</b>	<b>\$520,000</b>

The School District receives tuition from other school districts whose students attend the Struthers City School District regular and vocational programs. The large increase in tuition revenue is due to the School District allowing non-resident students the ability to attend the School District through open enrollment for the first time during fiscal year 2006.

The School District receives quarterly reimbursements for Medicaid claims from the Ohio Department of Education. The School District is still providing health services to indigent special education students but the School District is not expecting to receive any reimbursements during the 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 remainder going to the general fund.

Struthers City School District  
Mahoning County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2006

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**F. - Other Financing Sources**

During fiscal year 2005, the School District issued \$850,000, 3.05 percent tax anticipation notes. The notes matured on June 28, 2005. The School District received \$1,907,000 in a State solvency assistance advance during fiscal year 2005. The advance will be repaid without interest over two fiscal years beginning in fiscal year 2006 through deductions from the School District's foundation settlements. The School District is not forecasting any note or loan proceeds during fiscal year 2006. The general fund is forecasting the return of an advance made in fiscal year 1996 from the food service fund in the amount of \$37,000.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance, insurance opt out, attendance bonus and overtime. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education. Staffing levels decreased from 234 in fiscal year 2004 to 225 in fiscal year 2005 to 195 in fiscal year 2006. There are no further staff reductions anticipated for the rest of the forecast period.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. The contract covers the period July 1, 2004 to June 30, 2006, and allowed for no increase in the base salary for fiscal year 2005 and a 2 percent increase in the base salary for fiscal year 2006 as well as step increases that range from 4 to 6 percent and educational incentives. In total, certified salaries are expected to decrease due to the reduction of 10 staff members in fiscal year 2006 which is offset by the salary and step increases.

Classified staff salaries are based on a negotiated contract which includes base and step increases. The contract covers the period July 1, 2005 to June 30, 2006, and allows for a 3 percent increase in the base salary as well as step increases that range from 1 to 3 percent. Overall, the School District is expecting a decrease in classified salaries due to a reduction of 20 positions for fiscal year 2006 which is offset by the salary and step increases.

Substitute costs are expected to decrease during the forecast period due to the elimination of 2 long-term substitute positions and an overall decrease in teaching positions where substitutes would be necessary.

The School District offers severance pay upon retirement to its certified and classified employees with at least ten years of service in the School District. Payments to certified and classified employees are equal to one-fourth of the employee's total sick leave accumulation, up to a maximum payment of 60 days for certified and 65 days for classified. Payment is based on the daily rate of pay at retirement. Severance costs are anticipated to increase due to the retirement of nine staff members (out of the 30 positions eliminated) during the forecast period.

The School District offers an incentive for those employees not taking health care and an attendance bonus. The cost of the incentive and bonus is anticipated to decrease due to less employees taking advantage of these programs during fiscal year 2006 and an overall decrease in eligible participants.

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Other salaries and wages decreased due to the board members choosing to not be paid their wages for fiscal year 2006.

Presented below is a comparison of salaries and wages for fiscal years 2003, 2004, 2005 and the forecast period.

Revenue Sources	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Certified Salaries	\$6,352,000	\$6,785,000	\$7,101,000	\$6,874,000	(\$227,000)
Classified Salaries	1,286,000	1,349,000	1,365,000	1,213,000	(152,000)
Substitute Salaries	241,000	362,000	196,000	162,000	(34,000)
Supplemental Contracts	203,000	198,000	203,000	165,000	(38,000)
Severance Pay	39,000	19,000	39,000	83,000	44,000
Insurance and Attendance					
Bonuses	112,000	123,000	119,000	98,000	(21,000)
Other Salaries and Wages	8,000	8,000	5,000	2,000	(3,000)
Totals	<u>\$8,241,000</u>	<u>\$8,844,000</u>	<u>\$9,028,000</u>	<u>\$8,597,000</u>	<u>(\$431,000)</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 employer’s contribution rate of 14 percent of salaries for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over estimates are prorated over the next calendar year. The School District pays the employees’ retirement contributions for its administrators. The decrease to both SERS and STRS payments are due to a reduction of 10 certified employees and 20 classified employees and the corresponding reduction in salaries offset by the salary and step increases.

Medical/surgical and prescription drug health care costs are based on premiums set by the Mahoning County Insurance Consortium. Health care premiums are set for a twelve month period from July to June by the Consortium. Premiums are expected to decrease due to a rate reduction of 18 percent (effective July 1, 2005) for classified employees’ hospitalization and the reduction in staff. The rate for certified staff and administrators is the same as the prior fiscal year. In fiscal year 2005, the School District experienced a 5 percent rate increase for classified employees and a 13 percent decrease in rates for the certified staff and the administrators.

Vision and dental health care costs are based on a monthly premium recommended by the third party administrator. The premiums are based on the estimated claims and administrative charges. All funds, including the general fund, are charged for a monthly premium recommended by the third party administrator. Premiums are fixed for a twelve month period from July to June. The premiums for fiscal year 2006 are consistent with fiscal year 2005.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program. The decrease from fiscal year 2005 is due to the reduction of staff.

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Workers' compensation is forecasted to increase. The School District utilizes an agency fund to accumulate resources for the payment of workers' compensation premiums. In the prior fiscal years, the School District had enough money in the agency fund from refunds to make the payment without charging any fund. In fiscal year 2006, the School District is charging the general fund \$9,000 a month for its portion of the workers' compensation bill. Workers' compensation is based on the School District's assigned rate and the actual salaries and wages paid in the previous calendar year. In fiscal year 2006, the School District is paying a higher rate due to its dismissal from the Ohio School Board's Association group rating program for excessive claims.

The School District anticipates paying unemployment benefits of \$22,000 during fiscal year 2006. This increase is due to the reduction in staff that occurred in fiscal year 2005.

Presented below is a comparison of fiscal years 2003, 2004, 2005 and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Employer's Retirement	\$1,160,000	\$1,197,000	\$1,331,000	\$1,262,000	(\$69,000)
Health Care/Life Insurance	2,213,000	2,392,000	2,384,000	2,310,000	(74,000)
Workers' Compensation	5,000	0	54,000	117,000	63,000
Medicare	62,000	61,000	54,000	59,000	5,000
Unemployment	0	0	2,000	22,000	20,000
Totals	<u>\$3,440,000</u>	<u>\$3,650,000</u>	<u>\$3,825,000</u>	<u>\$3,770,000</u>	<u>(\$55,000)</u>

**C. - Purchased Services**

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Professional and Technical Services	\$100,000	\$102,000	\$88,000	\$54,000	(\$34,000)
Property Services	259,000	581,000	273,000	194,000	(79,000)
Travel and Meeting Expenses	15,000	(2,000)	6,000	5,000	(1,000)
Communication Costs	77,000	56,000	42,000	57,000	15,000
Utility Services	362,000	549,000	577,000	534,000	(43,000)
Tuition Payments	496,000	490,000	588,000	644,000	56,000
Open Enrollment	344,000	326,000	306,000	311,000	5,000
Pupil Transportation	63,000	60,000	58,000	32,000	(26,000)
Other Purchased Services	0	2,000	0	0	0
Totals	<u>\$1,716,000</u>	<u>\$2,164,000</u>	<u>\$1,938,000</u>	<u>\$1,831,000</u>	<u>(\$107,000)</u>

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Professional and technical services have decreased due to the School District reducing attorney and legal fees. Property services decreased due to a decrease in insurance payments, the plan to make certain allowable future maintenance payments out of a different fund and a concerted effort by the School District to shave costs in this area. Utility services decreased due to the School District using the Ohio Schools Council to purchase gas and electric and pupil transportation costs were lowered by reducing the distance that special needs kids are transported. Tuition and open enrollment increased due to additional students attending other schools.

**D. - Supplies and Materials**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$228,000	\$348,000	\$121,000	\$77,000	(\$44,000)
Operations, Maintenance and Repair	80,000	106,000	128,000	113,000	(15,000)
Textbooks	112,000	91,000	90,000	20,000	(70,000)
Totals	<u>\$420,000</u>	<u>\$545,000</u>	<u>\$339,000</u>	<u>\$210,000</u>	<u>(\$129,000)</u>

The School District implemented cost cutting procedures in general supplies, library books and periodicals and did not have to expend additional monies from its set-aside requirement for fiscal year 2006. All needed purchases for instructional materials and textbooks were made at the beginning of the school year and no further expenditures in this area are anticipated.

**E. - Capital Outlay**

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services are recorded as capital outlay expenditures. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements is to report the expenditure of resources, not costs. Capital outlay expenditures are for the payment of an equipment lease and the purchase of a new non-public school bus for fiscal year 2006. Prior fiscal year capital outlay expenditures included an equipment lease and the purchase of computer equipment and a new bus.

**F. - Debt Service**

The outstanding balances and principal to be retired for general fund supported debt consists of the following:



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<u>Type</u>	<u>Maturity Date</u>	<u>Balance at 6/30/2005</u>	<u>Fiscal Year 2006 Principal Payment</u>	<u>Fiscal Year 2006 Interest Payment</u>
State Operating Loan	June 15, 2006	\$240,000	\$240,000	\$7,000
Energy Conservation Notes	December 1, 2013	264,000	24,000	13,000
Solvency Assistance Loan	June 30, 2007	<u>1,907,000</u>	<u>954,000</u>	<u>0</u>
Total		<u>\$2,411,000</u>	<u>\$1,218,000</u>	<u>\$20,000</u>

The State Operating Loan was used to eliminate the general fund deficit for fiscal year 1996. The School District exercised a one-time option to repay the loan over a ten year period from State foundation revenues.

During fiscal year 1999, the School District issued energy conservation notes for the purpose of lighting and window replacement throughout the School District. These notes are being repaid with property taxes over a fifteen year period.

During fiscal year 2005, the School District received a Solvency Assistance Fund Advance from the State. The solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance is repaid over two years from State foundation revenues.

**G. - Other Objects**

Other object expenditures consist of dues and fees, insurance and awards. The increase of \$3,000 is due to a one time payment the School District is expecting to make for the reconditioning of athletic equipment.

**H. - Operating Transfers and Advances Out**

Transfers out of \$18,000 are anticipated during fiscal year 2006 with \$5,000 going to the Classroom Facilities capital projects fund and \$13,000 going to the Title I special revenue fund to cover salary expenditures.

**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on 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 as of June 30, 2005 were \$149,000 and are forecasted at \$157,000 as of June 30, 2006.

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**Note 9 - 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 Set-Aside**

The set aside requirement for fiscal year 2006 is \$299,000. There was a carryover of \$429,000 in excess of qualified expenditures from fiscal year 2005. The School District anticipates \$97,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve for textbook and instructional materials is forecasted.

**B. - Capital Acquisition and Improvements Set-Aside**

The set aside amount for fiscal year 2006 is \$299,000 and the School District also had a carryover balance of \$150,000. The School District anticipates \$391,000 in offsets and \$51,000 in qualifying expenditures in during the current fiscal year. Therefore, a reserve amount of \$7,000 is forecasted for capital acquisition and improvements.

**C. – Bus Purchases**

At June 30, 2005, the School District had \$11,000 in unspent bus monies. The School District received \$9,000 in a bus purchase allowance during fiscal year 2006. The School District does not anticipate purchasing a new public school bus during the current fiscal year. Therefore, a reserve amount of \$20,000 is forecasted for capital acquisition and improvements.

**D. – Poverty Based Assistance/Disadvantaged Pupil Impact Aid (DPIA)**

At June 30, 2005, the School District had no unspent DPIA monies. The School District anticipates receiving \$601,000 in restricted Poverty Based Assistance monies during fiscal year 2006 and having \$601,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

**Note 10 - Levies**

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:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
February 1995	Emergency	8.00 mills	5 Years	Failed
March 1995	Emergency	8.00 mills	5 Years	Failed
November 1996	Continuing	10.00 mills	Continuing	Passed
November 1999	Bond Issue	2.60 mills	23 Years	Passed
May 2005	Continuing	8.00 mills	Continuing	Failed
November 2005	Continuing	6.90 mills	Continuing	Failed

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**Note 11 - Self Insurance Fund**

The School District provides vision and dental benefits through a self-insurance program. The School District maintains an internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator reviews all claims which are then paid by the School District. The School District pays into the internal service fund \$53.20 for family coverage or \$48.70 for single coverage per employee per month which represents the entire premium required. The premium is paid monthly by the fund that pays the salary for the employee based on the number of employees and type of coverage provided to each employee. Monthly charges per person for single and family participation in the program are recommended by the third party administrator. The premiums charged to the funds are anticipated to be sufficient to cover claims and administrative charges for fiscal year 2006.

**Note 12 - Pending Litigation**

The School District currently has no pending litigation.

**Note 13 – Financial Planning and Supervision Commission**

On May 11, 2005, the School District was declared to be in a state of “Fiscal Emergency” by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District’s declining financial condition. In accordance with the law, a five member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, State Director of Budget and Management, the Mahoning County Auditor, an appointee of the Superintendent of Public Instruction, and an appointee of the Governor.

The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. The recovery plan was adopted on September 26, 2005. State law requires the plan to be updated annually. The recovery plan included staff reductions and replacing retirees with a high salary with new employees at a lower salary with an estimated savings of \$1,495,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal year 2006 and beyond.

**Note 14 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2006 through 2010 was filed on October 20, 2005. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The financial plan assumes the continued operation of the School District with no significant increases in revenues. The plan also assumes annual step increases, but no base salary increases, no additional staff reductions, and a ten percent increase in health care benefits for the fiscal years 2007 through 2010. The operating deficit increases from \$529,000 for fiscal year 2007 to \$1,387,000 for fiscal year 2010. The recovery plan, dated September 26, 2005, does not address periods beyond fiscal year 2006.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for information purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.



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**STRUTHERS CITY SCHOOL DISTRICT**

**MAHONING 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  
FEBRUARY 16, 2006**