



**Auditor of State  
Betty Montgomery**

**Mentor Exempted Village School District  
Lake County, Ohio**

**Financial Forecast  
For the Fiscal Year Ending June 30, 2004**

**Local Government Services Section**

Mentor Exempted Village School District  
Lake County

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**Auditor of State  
Betty Montgomery**

Board of Education  
Mentor Exempted Village School District  
6451 Center Street  
Mentor, Ohio 44060

**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 Mentor Exempted Village School District, Lake County, Ohio, and issued a report dated January 16, 2004. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2004 of \$20,138,000 after meeting the required reserve for capital improvements.

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 2005 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2004 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 2004.

BETTY MONTGOMERY  
Auditor of State

Peter R. Sorem  
Chief of Local Government Services

February 4, 2004

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**Auditor of State  
Betty Montgomery**

Board of Education  
Mentor Exempted Village School District  
6451 Center Street  
Mentor, Ohio 44060

**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 Mentor Exempted Village School District for the fiscal year ending June 30, 2004. The Mentor Exempted Village 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 statement of revenues, expenditures and changes in fund balance of the general fund of Mentor Exempted Village School District for the fiscal years ended June 30, 2001, 2002 and 2003 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.

*Betty Montgomery*

Betty Montgomery  
Auditor of State

January 16, 2004

MENTOR EXEMPTED VILLAGE SCHOOL DISTRICT  
LAKE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 THROUGH 2003 ACTUAL;  
FOR THE FISCAL YEAR ENDING JUNE 30, 2004 FORECASTED  
GENERAL FUND

	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Forecasted
<b>Revenues</b>				
General Property Tax (Real Estate)	\$38,062,000	\$40,170,000	\$38,309,000	\$42,540,000
Tangible Personal Property Tax	9,980,000	12,788,000	13,323,000	12,115,000
Unrestricted Grants-in-Aid	16,566,000	18,100,000	17,471,000	17,482,000
Restricted Grants-in-Aid	310,000	112,000	162,000	181,000
Property Tax Allocation	4,656,000	4,774,000	4,861,000	5,235,000
All Other Revenues	1,333,000	877,000	648,000	926,000
<i>Total Revenues</i>	<u>70,907,000</u>	<u>76,821,000</u>	<u>74,774,000</u>	<u>78,479,000</u>
<b>Other Financing Sources</b>				
Proceeds of Notes	0	0	5,000,000	12,480,000
Advances-In	597,000	343,000	0	0
Operating Transfers-In	6,000	3,000	0	0
<i>Total Other Financing Sources</i>	<u>603,000</u>	<u>346,000</u>	<u>5,000,000</u>	<u>12,480,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>71,510,000</u>	<u>77,167,000</u>	<u>79,774,000</u>	<u>90,959,000</u>
<b>Expenditures</b>				
Personal Services	50,087,000	51,984,000	56,613,000	60,430,000
Employees' Retirement/Insurance Benefits	13,251,000	14,049,000	15,528,000	18,371,000
Purchased Services	5,561,000	6,106,000	7,255,000	7,508,000
Supplies and Materials	2,237,000	2,113,000	2,211,000	2,061,000
Capital Outlay	629,000	922,000	905,000	757,000
Debt Service:				
Principal Retirement - Notes	0	0	250,000	15,250,000
Interest	0	0	10,000	239,000
Other Objects	859,000	1,139,000	904,000	951,000
<i>Total Expenditures</i>	<u>72,624,000</u>	<u>76,313,000</u>	<u>83,676,000</u>	<u>105,567,000</u>
<b>Other Financing Uses</b>				
Operating Transfers-Out	1,301,000	1,373,000	212,000	1,225,000
Advances-Out	343,000	0	0	0
<i>Total Other Financing Uses</i>	<u>1,644,000</u>	<u>1,373,000</u>	<u>212,000</u>	<u>1,225,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>74,268,000</u>	<u>77,686,000</u>	<u>83,888,000</u>	<u>106,792,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(2,758,000)	(519,000)	(4,114,000)	(15,833,000)
Cash Balance July 1	4,814,000	2,056,000	1,537,000	(2,577,000)
Cash Balance (Deficit) June 30	2,056,000	1,537,000	(2,577,000)	(18,410,000)
<b>Less: Encumbrances and Reserves:</b>				
Actual/Estimated Encumbrances June 30	1,318,000	1,923,000	1,943,000	1,728,000
Reserve for Notes	0	0	5,000,000	0
Reserve for Capital Improvements	208,000	0	0	0
<i>Total Encumbrances and Reserves</i>	<u>1,526,000</u>	<u>1,923,000</u>	<u>6,943,000</u>	<u>1,728,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>\$530,000</u>	<u>(\$386,000)</u>	<u>(\$9,520,000)</u>	<u>(\$20,138,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies

Mentor Exempted Village School District  
Lake County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2004

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**Note 1 - The School District**

The Mentor Exempted Village School District (School District) is located in Lake County and encompasses all of the cities of Mentor and Mentor-on-the Lake and portions of the Village of Kirtland Hills and Concord Township. 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 operates sixteen public schools including one high school, three junior high schools and twelve elementary schools. The School District is staffed by 617 non-certified and 872 certificated personnel to provide services to approximately 9,790 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Mentor Exempted Village School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of January 16, 2004, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - 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.

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

Mentor Exempted Village School District  
Lake County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2004

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**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 that 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 Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

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

**Proprietary Funds**

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

Internal Service Funds – Internal service funds are used to 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 fund reporting focuses on net assets and changes in net assets. 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. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Mentor Exempted Village School District  
Lake County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2004

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Budget – A budget of estimated cash receipts and disbursements is submitted to the Lake 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.

**Note 5 - General Operating Assumptions**

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

**Note 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, manufactured home and tangible personal property taxes. Advances may be requested from the Lake County Auditor as the taxes are collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

State law allows reductions in the form of rollbacks and the 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 revenues lost due to these exemptions. The amount of the reimbursement is presented in the forecast statement in the account “property tax allocation”.



Mentor Exempted Village School District  
 Lake County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2004

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

Tax Levies	Year Approved	Last Year of Collection	Full Tax Rate (Mills)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	\$4.80
Continuing Operating	1976	n/a	29.80
Continuing Operating	1977	n/a	4.90
Continuing Operating	1984	n/a	8.90
Continuing Operating	1986	n/a	6.90
Continuing Operating	1992	n/a	4.90
Continuing Operating	1996	n/a	4.50
Continuing Operating	2003	n/a	3.00
Total Tax Rate			\$67.70

The School District also has levies for bonded debt and permanent improvement totaling \$2.07 per \$1,000 of assessed valuation. The School District's total rate is 69.77 mills.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$21.19 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$29.78 per \$1,000 of assessed valuation for collection year 2004.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amounts shown in the revenue section of the forecast statement represent gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Lake County Auditor. The School District anticipates \$2,480,000 in new revenue equal to one-half years' revenue from the three-mill levy approved in November 2003. No property tax advances against 2005 are anticipated in fiscal year 2004. The anticipated increase of \$4,231,000 results from the passage of the new levy, an increase in the assessed valuation and the effect of an advance against fiscal year 2003 property taxes received in fiscal year 2002.

Mentor Exempted Village School District  
 Lake County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2004

The following table reflects the effect of the property tax advances:

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Variance
Real Estate Taxes per Forecast	\$40,170,000	\$38,309,000	\$42,540,000	\$4,231,000
Advances against Fiscal Year 2003 Property Taxes received in fiscal year 2002	<u>(1,500,000)</u>	<u>1,500,000</u>	<u>0</u>	<u>(1,500,000)</u>
Fiscal Year Property Tax Revenues	<u>\$38,670,000</u>	<u>\$39,809,000</u>	<u>\$42,540,000</u>	<u>\$2,731,000</u>

**Tangible Personal Property Tax** - Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues are based upon information provided by the Lake County Auditor. Based upon these estimates, the School District anticipates \$12,115,000 in tangible personal property tax, a decrease of \$1,208,000 from the previous fiscal year. The decrease is primarily the result of the losses due to the deregulation of public utilities.

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

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), classroom teacher ratios and 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, gifted aid, transportation, preschool, vocational education and amounts for basic aid guarantee.

Formula aid is calculated by multiplying a cost of doing business factor times the cost per pupil times ADM, less an adjustment for property valuation. State law set the base cost per pupil for fiscal year 2001 at \$4,294 and increased it each year thereafter to \$4,490 for 2002 and \$4,949 for 2003. In 2003, the rate was changed for fiscal year 2004 to \$5,058 per pupil.

The anticipated State foundation revenue for fiscal year 2004 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$16,754,000, which represents a \$195,000 increase from the prior fiscal year.

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 to be made twice a year in February and August. The School District is anticipating \$728,000 in public utility reimbursements in fiscal year 2004, which is based on information provided by the Ohio Department of Taxation.

Mentor Exempted Village School District  
 Lake County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2004

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

Restricted grants-in-aid during the forecast period consist of an anticipated bus purchase allowance of \$181,000. During fiscal year 2003, the School District received \$162,000 in bus purchase allowance monies.

**D. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Lake County Auditor, is anticipated to increase \$374,000 over fiscal year 2003. This increase is primarily due to the increase in valuations as well as one-half years' revenue from the three-mill levy passed in November 2003.

**E. - All Other Revenues**

All other revenues include tuition, interest on investments, classroom materials and fees, rentals, miscellaneous receipts, sale of assets and refund of prior year expenditures.

The School District receives tuition for students with developmentally handicapped and learning disabilities as well as open enrollment. For fiscal year 2004, the School District has taken steps to collect on delinquent tuition payments from other school districts, which is resulting in an anticipated \$285,000 increase.

An increase in classroom materials and fees revenue is expected due to the School District implementing pay-to-play fees during fiscal year 2004.

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

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Tuition	\$98,000	\$383,000	\$285,000
Interest on Investments	149,000	50,000	(99,000)
Classroom Materials and Fees	77,000	122,000	45,000
Rentals	45,000	51,000	6,000
Miscellaneous	67,000	71,000	4,000
Sale of Assets	11,000	12,000	1,000
Refund of Prior Year Expenditures	201,000	237,000	36,000
<b>Totals</b>	<b>\$648,000</b>	<b>\$926,000</b>	<b>\$278,000</b>

Mentor Exempted Village School District  
Lake County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2004

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**F. - Other Financing Sources**

Proceeds of notes include tax anticipation notes in the amount of \$10,000,000 and \$2,480,000. The \$10,000,000, seven month, tax anticipation notes have an interest rate of 2.38 percent and mature on June 15, 2004. The \$2,480,000, five-year, tax anticipation notes have an interest rate of 3.50 percent. The notes have annual principal payments of \$496,000 plus interest in December 2004 through December 2008.

During fiscal year 2003, the School District issued \$5,000,000 in tax anticipation notes that bear interest of two percent. These notes mature on June 26, 2004.

During fiscal year 2002, the School District issued \$750,000 in energy conservation notes that bear interest of 2.90 percent. These notes mature on May 3, 2005. The note proceeds were received in the debt service fund, and are repaid through the general fund.

**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, supplemental contracts, substitutes, severance pay, student workers, board members' compensation, and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis.

Certified (teacher) staff salaries are based on a negotiated contract that includes base and step increases and educational incentives for existing staff, and the addition of ten staff members. The contract covers the period of August 22, 2002 to August 22, 2005, and allows for a 4.25 percent increase in base salary as well as step increases of approximately 4.7 percent for fiscal year 2004. The contract for classified staff covers the period of August 15, 2002 to August 14, 2005, and allows for a 4.25 percent base salary increase as well as a average 3.49 percent step increase for fiscal year 2004. The increase in classified salaries is offset by a reduction of 23 staff positions.

Substitute costs are forecasted to decrease from the prior fiscal year as the result of a reduction in the base pay for substitutes. In addition, the number of supplemental contracts was reduced.

The School District offers severance pay to its certified and classified employees with five years of service with the School District. Payments are twenty-five percent of their unused sick leave up to a maximum of fifty-three days. The School District also offers a retirement incentive bonus. Any certified employee who is or becomes eligible to retire during fiscal year of 2003, 2004 and 2005, and retires in the first year of eligibility receives a \$15,000 payment. If the employee retires during their second year of eligibility, the employee will receive a \$7,500 payment. Any classified employees who are eligible for retirement before July 1, 2003 and retire in their first year of eligibility during fiscal year 2004, will receive 40 percent of the employee's highest annual earnings with the School District. Employees who are past their first year of eligibility and retire in fiscal year 2004, will receive a one-time bonus of 25 percent of the employee's highest annual earnings. Severance pay is anticipated to increase \$352,000 due to the number employees that may take advantage of the retirement bonus.

Mentor Exempted Village School District  
 Lake County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2004

The School District offers a \$1,200 incentive for those employees that take a health insurance waiver. During the forecast period, this incentive is anticipated to increase due to more employees taking advantage of this program.

Presented below is a comparison of salaries and wages for fiscal year 2003 and the forecast period.

	Fiscal Year 2003	Fiscal Year 2004	Increase (Decrease)
Certified Salaries	\$40,776,000	\$44,118,000	\$3,342,000
Classified Salaries	10,161,000	10,301,000	140,000
Substitute Salaries	1,809,000	1,537,000	(272,000)
Supplemental Contracts	1,406,000	1,293,000	(113,000)
Severance Pay	264,000	616,000	352,000
Overtime	576,000	582,000	6,000
Tutors	1,293,000	1,254,000	(39,000)
Health Insurance Waivers	248,000	651,000	403,000
Compensation of Board Members	12,000	10,000	(2,000)
Student Workers	43,000	43,000	0
Other Salaries and Wages	25,000	25,000	0
Totals	<u>\$56,613,000</u>	<u>\$60,430,000</u>	<u>\$3,817,000</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 fourteen 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 calendar year. Retirement costs are forecasted to increase primarily due to the overall increase in salaries.

Health care costs are based on the coverage terms of the health insurance contracts, the anticipated number of employees participating in the program and the monthly premiums effective July 1, 2003. The School District received an increase of 8 to 28 percent, depending on the provider. The increase was offset slightly because of the waiver program that allows employees to receive a \$1,200 payment in lieu of health insurance.

Life, Dental and Vision insurance premiums are based on the coverage terms of existing contracts, the anticipated number of employees participating in the program and the monthly premiums.

Workers' compensation is forecasted to increase due to rebates offered in prior fiscal years that are not anticipated for fiscal year 2004.

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

Unemployment benefits will increase due to the 23 classified positions eliminated in December of 2003.

Mentor Exempted Village School District  
 Lake County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2004

Presented below is a comparison of fiscal year 2003 and the forecast period:

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Employer's Retirement	\$8,132,000	\$8,955,000	\$823,000
Insurance	6,722,000	8,194,000	1,472,000
Workers' Compensation	103,000	479,000	376,000
Medicare	533,000	606,000	73,000
Unemployment	11,000	80,000	69,000
Tuition Reimbursement	0	30,000	30,000
Professional Dues	27,000	27,000	0
<b>Totals</b>	<b>\$15,528,000</b>	<b>\$18,371,000</b>	<b>\$2,843,000</b>

**C. - Purchased Services**

Purchased service expenditures forecasted in the amount of \$7,508,000 are comprised of the following:

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Professional and Technical Services	\$1,107,000	\$999,000	(\$108,000)
Property Services	2,011,000	1,809,000	(202,000)
Travel and Meeting Expenses	98,000	88,000	(10,000)
Communication Costs	345,000	311,000	(34,000)
Utility Services	1,305,000	1,175,000	(130,000)
Trade Services	28,000	25,000	(3,000)
Tuition Payments	2,020,000	2,794,000	774,000
Pupil Transportation	341,000	307,000	(34,000)
<b>Totals</b>	<b>\$7,255,000</b>	<b>\$7,508,000</b>	<b>\$253,000</b>

Although the School District anticipates decreases of \$521,000 through the implementation of cost-cutting procedures, tuition paid to other school districts is anticipated to increase because of students enrolling in community schools, open enrollment, and special education.

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**D. - Supplies and Materials**

Supplies and materials are comprised of the following:

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$1,130,000	\$1,050,000	(\$80,000)
Operations, Maintenance and Repair	1,053,000	947,000	(106,000)
Textbooks	28,000	64,000	36,000
Totals	<u>\$2,211,000</u>	<u>\$2,061,000</u>	<u>(\$150,000)</u>

The decrease in materials and supplies is due to the cost-cutting procedures implemented by the School District.

**E. - Capital Outlay**

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

Capital outlay expenditures are forecasted in the amount of \$757,000. The \$148,000 decrease from fiscal year 2003 is due to capital maintenance and bus purchases that will not occur during the forecast year. The School District has a permanent improvement levy that will generate approximately \$1,061,000 in fiscal year 2004. The School District uses this fund to make additional capital expenditures.

**F. - Debt Service**

General fund supported debt consists of the following:

	Issue Date	Maturity Date	Principal
\$5,000,000 Revenue Anticipation Notes - 2.00%	06/26/03	06/26/04	\$5,000,000
\$10,000,000 Tax Anticipation Notes - 2.38%	11/26/03	06/15/04	10,000,000
\$750,000 Energy Conservation Notes - Various	05/04/00	04/28/05	<u>250,000</u>
Total			<u>\$15,250,000</u>

**G. - Other Objects**

Other object expenditures consist of dues and fees and general liability insurance. The School District anticipates an increase in property tax collection fees and election expenditures.

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

No advances-out are anticipated during fiscal year 2004. The School District expects to make transfers from the general fund in the amount of \$1,225,000 during fiscal year 2004 for fiscal charges on debt and to cover the deficits in the following funds:

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	Amount
Summer School	\$13,000
Adult Education	19,000
Rotary	1,163,000
Debt Service	30,000
Total	\$1,225,000

**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 the budgetary 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 benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2003 were \$1,943,000 and are forecasted at \$1,728,000 for June 30, 2004.

**Note 9 - Reservations of Fund Balance**

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

**A. - Textbooks and Instructional Materials**

The set aside requirement for fiscal year 2004 is \$1,388,000. There was a carryover of (\$446,000) from fiscal year 2003. The School District will have \$1,197,000 in qualifying expenditures during the current fiscal year; therefore, no reserve for textbooks and instructional materials is forecasted.

**B. - Capital Acquisition and Improvements**

The set aside amount for fiscal year 2004 is \$1,388,000. The School District anticipates \$1,056,000 in offsets and \$407,000 in qualifying expenditures in fiscal year 2004; therefore, no reserve for capital acquisition and improvements is forecasted.

**C. - Notes**

The School District issued \$5,000,000 in tax anticipation notes on June 26, 2003, in anticipation of fiscal year 2004 property tax revenues. State law allows for tax anticipation notes to be issued within ten days of the new fiscal year provided none of the note proceeds are considered available for appropriation until the new fiscal year and none of the proceeds are expended prior to the first day of the new fiscal year.



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**Note 10 - Levies**

The School District has placed a 7.9 mill emergency levy on the March 2, 2004 ballot. If passed, the levy will generate approximately \$15 million in revenues annually, with collections beginning in fiscal year 2005. No new revenue has been included in the forecast from this levy because of the uncertainty of voter approval.

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>
May 4, 1993	Permanent Improvement	1.0 mills	5 Years	Passed
May 2, 1995	Operating	4.5 mills	Continuing	Defeated
November 7, 1995	Operating	4.5 mills	Continuing	Defeated
March 19, 1996	Operating	4.5 mills	Continuing	Passed
May 5, 1998	Permanent Improvement	1.0 mills	5 Years	Passed
November 5, 2002	Permanent Improvement	1.0 mills	5 Years	Passed
November 4, 2003	Operating	3.0 mills	Continuing	Passed

**Note 11 - Pending Litigation**

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

**Note 12 - State School Funding Decision**

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

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

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



**Auditor of State  
Betty Montgomery**

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**MENTOR EXEMPTED VILLAGE SCHOOL DISTRICT**

**LAKE 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 4, 2004**