Auditor of State
Betty Montgomery

Mentor Exempted Village School District
Lake County, Ohio

Fiscal Emergency Termination

Local Government Services Section

Mentor Exempted Village School District - Lake County

Fiscal Emergency Termination

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Auditor of State
Betty Montgomery

CERTIFICATION

Pursuant to a request to the Auditor of State by the Mentor Exempted Village School District Financial Planning and Supervision Commission, the Auditor of State has determined that the Mentor Exempted Village School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, and the Mentor Exempted Village School District has met the requirements of Section 3316.16, Revised Code, for termination of the Mentor Exempted Village School District Financial Planning and Supervision Commission. Therefore, the existence of the Mentor Exempted Village School District Financial Planning and Supervision Commission and its role in the operation of the Mentor Exempted Village School District is terminated as of February 4, 2005.

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

Accordingly, on behalf of the Auditor of State, this report is hereby submitted to the Mentor Exempted Village School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Edward Zupancic, Lake County Auditor, and Susan Tave Zelman, State Superintendent of Public Instruction.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 4, 2005

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Report on Termination of the Mentor Exempted Village School District Financial Planning and Supervision Commission

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

The Declaration of Fiscal Emergency

The Auditor of State conducted an analysis of the Mentor Exempted Village School District, dated February 4, 2004, to determine whether the School District met the conditions for fiscal emergency. The results of the analysis were as follows:

1. The Auditor of State certified an operating deficit for the general fund for the fiscal year ending June 30, 2004 in the amount of $20,138,000, which exceeded fifteen percent of the general fund revenues for fiscal year 2003; and,

2. The Auditor of State determined that the School District had not passed a levy that would raise enough additional revenue to eliminate the first condition.

As a result of the analysis the School District was placed in fiscal emergency and a financial planning and supervision commission was appointed to oversee the operation of the School District.

Termination of Fiscal Emergency

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

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;

2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;

3. The objectives of the financial recovery plan are being met; and,

4. The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse".

The results of the analysis performed by the Auditor of State to determine if each of these four conditions has been satisfied follow.

The Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the Mentor Exempted Village School District (the School District) and issued an Accounting Report, dated October 7, 2004. The report identified areas where the School District's financial accounting and reporting system were not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

Report on Termination of the Mentor Exempted Village School District Financial Planning and Supervision Commission

The criteria for termination of the Commission include a determination by the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation and is expected to be completed within two years. This determination included management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient the correct these issues identified in the Financial Accounting Report. A summary of the actions taken by management to address those issues is presented below:

Monitoring the Budget:

- The new monthly financial statements include a Financial Brief which identifies any month-end fund balance deficits with an explanation why they occurred. All transfers and advances between funds are now presented to the Board of Education for authorization prior to posting.

- Beginning with the January 11, 2005 re-adoption of general fund appropriations at the function/object level and at fund level for all other funds, the Board of Education is now consistent with the legal level of control established by Board policy. Similar control levels have been applied to all subsequent supplemental appropriations.

- The certificate stating that appropriations have not exceeded the current amended certificate has been received from the Lake County Budget Commission for fiscal year 2005 appropriations and all subsequent supplemental appropriation resolutions. The Chief Financial Officer requests a new amended certificate of estimated resources when necessary to recognize additional revenue already received or new anticipated non-tax revenue.

- In order to comply with Ohio Revised Code section 5705.38, the School District approved temporary appropriations for the 2005 fiscal year on June 14, 2004 and permanent appropriations on September 23, 2004.

  <u>In Process of Implementation</u>

  - The Superintendent is in the process of conducting a comprehensive update of all Board of Education policies, including policies which address fiscal planning, tax budget preparation, the tax budget hearing, appropriations, fiscal management goals, and the annual budget.

  - The Treasurer's Office has instituted a monthly monitoring of appropriations and the current amended certificate of estimated resources; however, comparisons need to be made before the appropriations are modified by the Board.

  - A proposed policy title "Annual Budget (Annual Appropriation Measure)" specifies the level of control adopted by the Board of Education and Chief Financial Officer's responsibilities. This policy includes the development by the Chief Financial Officer of guidelines and forms for the allocation and re-allocation of appropriations within the Board's level of control and monthly requests for supplemental appropriations.

- The Board of Education is seeking legal guidance on the issue of the Board authorizing the Chief Financial Officer to make transfers, advances, and supplemental appropriations as part of the year end closing and then presenting those items for ratification at the next scheduled Board meeting. The Board of Education will comply with legal counsel's advice.

- The Treasurer's Office has researched the two State grants transferred to the general fund and will comply with the Ohio Department of Education Grants Management Group directives. To date, the ODE has not responded to the School District as to the necessary plan of action.

- The Board of Education is in the process of developing policies to cover all aspects of financial planning and the five-year forecast, including the required information and due dates.

Revenue Activity:

- The Treasurer's Office developed an updated Student Activity Program procedure manual dated August, 2004. An initial training session for cashiers was held August 31, 2004 to review the fiscal management of student activity programs. The use of Sales Project Potential Forms for fundraising projects has been required and use is being monitored. The form is being revised to improve utilization.

- The Accounts Receivable Supervisor has begun to review and sign the computer generated receipts once the pay-in slip from the departments has been posted to the system.

- The Treasurer's Office has developed and implemented a money bag pickup form identifying the date, time, and individual that picked it up. Building cashiers have been reminded to keep money bags locked up until courier pickup.

<u>In Process of Implementation</u>

- The Chief Financial Officer has reviewed and updated the Payroll Supervisor, Grants Management Clerk, and Student Activity Clerk's job descriptions and duties. The Assistant Treasurer will work with the Personnel Officer to review and update all other Treasurer's Office job descriptions and duties, including the Accounts Receivable Department, to ensure there is adequate segregation of duties.

- The Assistant Treasurer and the Accounts Receivable Supervisor are looking into a standard receipt book to be used by all departments. Samples from other school districts have been obtained and are being reviewed. The Assistant Treasurer is looking into vendors that have standardized books. It is anticipated that standardized receipt books will be in use prior to the start of the 2005-2006 school year.

- The Chief Financial Officer has begun an analysis of the Food Service Fund to ensure that the fund continues to be self-sufficient and to determine the department's capital asset needs. The Food Services Supervisor has stated that the School District is not considering cash registers at the elementary schools at this time. They are considering point of purchase computer programs instead. They will continue with the procedures in place at this time.

Not Implemented

- The responsibility for overseeing the approval of applications for the free or reduced lunches has been assigned to the new Director of Operations hired January, 2005; however, this process has not yet begun.

Purchasing Process:

- The Board adopted Resolution 208-04 on July 12, 2004, titled "Authorization to pay certain invoices". The resolution allows the Chief Financial Officer to certify that at the time an order was placed and at the time of the payment sufficient appropriations existed for such purpose and to pay the invoices. Under the resolution, the Chief Financial Officer may certify and pay obligations up to $1,000 and $7,500 in the aggregate each month without board approval.

- The Treasurer's Office now stamps the purchase order with a "Then and Now certification" box and then approves as appropriate.

- The School District requested and received appropriate certification language guidance from legal counsel for the certifications under 5705.412. The updated certificate language is in use.

In Process of Implementation

- The Superintendent is in the process of conducting a comprehensive update of all Board of Education policies, including the roles and responsibilities of the Treasurer, Director of Business Operations, and the Superintendent in the purchasing process.

- The School District is reviewing its vendor files to ensure appropriate information such as a W-9 exists and expanded building access to the list of vendors. A determination of acceptable vendors will be made by the Direction of Business Operations and the Assistant Treasurer.

Cash Disbursements

- The Chief Financial Officer's monthly Financial Brief identifies and explains month-end fund balance deficits. All new State and Federal grant funds are reviewed to determine the necessity of advances. The timing of the receipt of grant funds compared to the timing of paying invoices related to reimbursable grants may necessitate an advance until the money is received. Advance requests are presented to the Board of Education monthly for authorization.

- Beginning with fiscal year 2005, the monthly financial statements presented for Board approval include a listing of vendor checks issued. At the January 11, 2005 Organizational Meeting, the Board of Education adopted a resolution to dispense with the adoption of resolutions approving warrants for payment of any claim from school funds. The Chief Financial Officer will continue to provide the Board with a monthly listing of vendor checks.

In Process of Implementation

- The Assistant Treasurer has begun a review of the treasury operations. Key areas have been discussed but nothing formal is yet in writing. An initial review of Accounts Payable has begun. All policies are being reviewed and procedures documented.

Payroll Process

- The Chief Financial Officer's signature is affixed to paychecks by an electronic check signor attached to a printer. All checks over $10,000 and all manual checks are hand signed by the Chief Financial Officer. In the event that the Chief Financial Officer is not available, a rubber signature stamp is used. The Assistant Treasurer will initial a copy of the check and then give it to the Chief Financial Officer. Approximately 90 percent of the payroll checks are direct deposit. A mechanical check signing machine with a signature counter has recently been purchased to replace the rubber stamp.

Not Implemented

- The procedures from the beginning of the payroll cycle to the check list and beyond has not been completed, the Payroll Supervisor has only been with the School District for six months.

Debt Administration

- All accounting and financial records have been corrected to properly reflect the issuance and reporting of notes purchased within ten days of a new fiscal year. The Board of Education, Superintendent and the Chief Financial Officer have re-affirmed their responsibility to comply with the Ohio Revised Code when managing the School District's borrowing program.

Capital Assets and Supplies Inventories

In Process of Implementation

- The Superintendent is in the process of conducting a comprehensive update of all Board of Education policies. The capital assets policies will be updated to reflect recent Board resolutions.

- The Director of Business Operations will assist in updating the capital asset procedures for tracking and reporting capital assets.

- The Chief Financial Officer in cooperation with the Director of Business Operations will develop a policy for consumable inventory including an annual year-end physical inventory and recommend this policy for Board adoption.

- The Director of Business Operations will be responsible for managing the capital asset program for the School District and will ensure that the Board of Education policy is followed.

Cash Management and Investing

- The investment policy on the allocation of interest earnings has been reviewed and approved by the Board.

- The President of the Board of Education and the Chief Financial Officer have signed the investment policy.

- The investment policy has been filed with the Clerk of the Bureau in the Auditor of the State's Office.

Financial Reporting

- The Chief Financial Officer reviews the bank reconciliation to ensure they are completed on a timely basis. The Chief Financial Officer notes in the monthly financial statements that the bank reconciliations are current and on file for inspection.

- The fiscal year 2004 basic financial statements were filed by the November 27, 2004 deadline.

<u>In the Process of Implementation</u>

- The Board of Education needs to update the policies regarding the duties and responsibilities of the Treasurer to include the requirement to compile annual GAAP basis financial statements and file them within 150 days of fiscal year end as required. As a matter of philosophy, the Chief Financial Officer does not recommend Board of Education policies that simply restate the law. The Chief Financial Officer's Oath of Office requires compliance with federal laws, the Ohio Revised Code and Ohio Administrative Code which regulates filing requirements of GAAP basis financial statements.

- The Chief Financial Officer will begin providing the required notice that the financial report has been completed and is available for public inspection upon the filing of the financial report with the Auditor of State's Office.

<u>The Fiscal Emergency Conditions</u>

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

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.

2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.

3. The Superintendent of Public Instruction has reported to the Auditor of State that the district is not materially complying with the provisions of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.

4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,

5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

In order to be released from fiscal emergency, a school district must have corrected or eliminated the fiscal emergency conditions that existed at the time of the emergency declaration and no new emergency conditions may have occurred.

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

1. The School District no longer has an operating deficit in the general fund.

2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.

3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.

<u>The Financial Recovery Plan</u>

We obtained and reviewed a copy of the latest financial recovery plan of the School District, dated June 22, 2004. The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan which were confirmed by us. The key provisions of the financial plan are as follows:

1. Development of a five-year financial forecast to establish the parameters of expenditures versus revenue for the District;

2. Approval by the Commission of appropriations that are aligned with the five-year forecast;

3. Approval by the Commission of any deviations from the five-year financial forecast, the Financial Recovery Plan and appropriations;

4. Preparation by the Ohio Department of Education in conjunction with the School District Administrative staff of a staffing analysis for fiscal year 2004;

5. Consideration of levy options including the passage of an operating levy;

6. Reduction of operating expenditures, including professional travel and travel reimbursements from funds other than the general fund;

7. Personnel reductions, including substitute pay and overtime; and,

8. Monitoring of monthly receipts, expenditures and encumbrances by ODE.

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

1. Requested a Solvency Assistance Fund advance in the amount of $17,000,000;

2. Obtained voter approval of a new five-year 3 mill continuing operating levy in November 2003 that generates $4,960,000, annually;

3. Issued tax anticipation notes in the amount of $2,480,000 against the 3 mill continuing operating levy, payable over five years;

4. Reduced transportation, supplies and supplemental contracts for fiscal year 2004 which resulted in savings of $1,859,000;

5. Reduced certified, classified, and administrators by 209 full-time equivalents which in fiscal year 2004 produced savings of approximately $1,131,000 and in fiscal year 2005 produced an estimated savings of $13,568,000;

6. Re-negotiated agreements with classified and certified staff members, which will result in savings of $334,000 and $1,099,000, respectively;

7. Closed Center Street Elementary for a savings of $165,000 in utilities and other costs (personnel savings are included above);

8. Reduced supplies and supplemental contracts and froze administrative salaries which will result in savings of about $3,657,000 in fiscal year 2005;

9. Reduced 18 transportation positions which when offset by a reduction in State Transportation funds, will result in a net savings of $373,000;

10. Reductions in staff resulting in an increase in unemployment costs of $346,000 and $2,160,000 in fiscal years 2004 and 2005, respectively; and,

11. Payroll costs increased by approximately $1,023,000 for fiscal year 2006 due to the 27 pay dates for classified staff.

The total projected savings for fiscal year 2004 is $2,644,000 and for fiscal year 2005 is $18,057,500 for a combined total savings of $20,701,500.

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2005 through 2009, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District's five year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the forecast period through fiscal year 2008. The Auditor of State, in a report dated January 24, 2005, rendered a "nonadverse" opinion on the financial forecast.

Conclusion

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

1. The School District has adopted and implemented, or is in the process of implementing, an effective accounting and reporting system; however, the Auditor of State will monitor the progress to insure full implementation within a two year period, especially those areas deemed not implemented as of the date of this report;

2. The School District has corrected or eliminated all the fiscal emergency conditions, no new conditions have occurred, and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency during the forecast period;

3. The School District has met the major objectives of the Financial Recovery Plan; and,

4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is "nonadverse".

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

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

DISCLAIMER

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

APPENDIX A

Mentor Exempted Village School District
Lake County

Financial Forecast

For the Fiscal Years Ending June 30, 2005 Through 2009

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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

<u>Independent Accountant's Report</u>

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 years ending June 30, 2005 through 2009. 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 the guidelines for presentation of forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 24, 2005

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Mentor Exempted Village School District - Lake County
Statement Of Revenues, Expenditures And Changes In Fund Balance
For The Fiscal Years Ended June 30, 2002 Through 2004 Actual;
For The Fiscal Years Ending June 30, 2005 Through 2009 Forecasted
General Fund

	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual
Revenues			
General Property Tax (Real Estate)	$40,170,000	$38,309,000	$41,439,000
Tangible Personal Property Tax	12,788,000	13,323,000	11,616,000
Unrestricted Grants-in-Aid	18,101,000	17,471,000	17,971,000
Restricted Grants-in-Aid	111,000	162,000	413,000
Property Tax Allocation	4,774,000	4,861,000	5,243,000
All Other Revenues	877,000	648,000	1,279,000
Total Revenues	76,821,000	74,774,000	77,961,000
Other Financing Sources			
Proceeds from Sale of Notes	0	5,000,000	12,480,000
Solvency Assistance Advance	0	0	17,000,000
Transfers In	343,000	0	59,000
Advances In	3,000	0	0
Total Other Financing Sources	346,000	5,000,000	29,539,000
Total Revenues and Other Financing Sources	77,167,000	79,774,000	107,500,000
Expenditures			
Personal Services	51,984,000	56,613,000	58,505,000
Employees' Retirement/Insurance Benefits	14,049,000	15,528,000	17,347,000
Purchased Services	6,106,000	7,255,000	7,086,000
Supplies and Materials	2,113,000	2,211,000	1,634,000
Capital Outlay	922,000	905,000	106,000
Debt Service:			
Principal-Notes	0	0	15,000,000
Principal-HB 264 Loans	0	250,000	250,000
Solvency Assistance Advance	0	0	0
Interest and Fiscal Charges	0	10,000	6,000
Other Objects	1,139,000	904,000	1,296,000
Total Expenditures	76,313,000	83,676,000	101,230,000
Other Financing Uses			
Transfers Out	1,373,000	212,000	1,452,000
Advances Out	0	0	590,000
Total Other Financing Uses	1,373,000	212,000	2,042,000
Total Expenditures and Other Financing Uses	77,686,000	83,888,000	103,272,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(519,000)	(4,114,000)	4,228,000
Cash Balance July 1,	2,055,000	1,536,000	(2,578,000)
Cash Balance June 30,	1,536,000	(2,578,000)	1,650,000
Encumbrances and Reserves:			
Actual/Estimated Encumbrances June 30	1,923,000	1,943,000	1,566,000
Reserve for Notes	0	5,000,000	0
Total Encumbrabces and Reserves	1,923,000	6,943,000	1,566,000
Unencumbered/Unreserved Fund Fund Balance (Deficit) June 30	($387,000)	($9,521,000)	$84,000

See accompanying summary of significant forecast assumptions and accounting policies

Fiscal Year 2005 Forecasted	Fiscal Year 2006 Forecasted	Fiscal Year 2007 Forecasted	Fiscal Year 2008 Forecasted	Fiscal Year 2009 Forecasted
$49,404,000	$55,336,000	$56,010,000	$56,635,000	$56,897,000
11,556,000	12,031,000	10,913,000	9,793,000	8,674,000
17,527,000	17,527,000	17,527,000	17,527,000	17,527,000
468,000	284,000	284,000	284,000	284,000
6,376,000	7,141,000	7,228,000	7,309,000	7,343,000
1,261,000	1,121,000	1,121,000	1,146,000	1,146,000
86,592,000	93,440,000	93,083,000	92,694,000	91,871,000
7,000,000	0	0	0	0
0	0	0	0	0
0	0	0	0	0
590,000	50,000	50,000	50,000	50,000
7,590,000	50,000	50,000	50,000	50,000
94,182,000	93,490,000	93,133,000	92,744,000	91,921,000
51,644,000	54,596,000	57,058,000	60,147,000	62,559,000
17,400,000	16,169,000	17,683,000	19,386,000	21,338,000
7,705,000	8,102,000	8,414,000	8,580,000	8,982,000
2,529,000	2,624,000	2,724,000	2,828,000	2,938,000
112,000	123,000	136,000	149,000	164,000
496,000	1,896,000	1,896,000	1,896,000	1,896,000
327,000	77,000	77,000	77,000	77,000
8,500,000	8,500,000	0	0	0
232,000	264,000	206,000	147,000	88,000
1,452,000	1,441,000	1,461,000	1,483,000	1,506,000
90,397,000	93,792,000	89,655,000	94,693,000	99,548,000
330,000	360,000	360,000	360,000	360,000
50,000	50,000	50,000	50,000	50,000
380,000	410,000	410,000	410,000	410,000
90,777,000	94,202,000	90,065,000	95,103,000	99,958,000
3,405,000	(712,000)	3,068,000	(2,359,000)	(8,037,000)
1,650,000	5,055,000	4,343,000	7,411,000	5,052,000
5,055,000	4,343,000	7,411,000	5,052,000	(2,985,000)
1,566,000	1,566,000	1,566,000	1,566,000	1,566,000
0	0	0	0	0
1,566,000	1,566,000	1,566,000	1,566,000	1,566,000
$3,489,000	$2,777,000	$5,845,000	$3,486,000	($4,551,000)

Note 1 – The School District

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 fifteen schools including one high school, three junior high schools, and eleven elementary schools. It is staffed by 617 classified employees and 872 certified full-time personnel who provide services to 9,790 students and other community members.

Note 2 - Nature of the Forecast

The 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 24, 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 - 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 budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

B. Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity 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 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 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 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 trusts funds, investment trust funds, private-purpose trust funds and agency funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations 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 first two levels of function and the first level of object for the general fund and at the fund level for all other funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education. The Chief Financial Officer has been given the ability to allocate appropriations beyond the levels adopted by the Board of Education.

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, the certificate of estimated resources is amended to include any unencumbered balances from the preceding fiscal 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 fiscal year. The appropriation measure may be amended or supplemented during the fiscal 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 programs 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. Property Taxes

Property tax revenues consist of real property, public utility real and personal property, manufactured home and tangible personal property taxes. General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. Tangible personal property tax is applied to property used in business (except for public utilities). The School District may request advances from the Lake 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”.

The property tax revenues for the School District’s 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	n/a	n/a	$4.80
Continuing Operating	1976/1977	n/a	34.70
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
Emergency Operating	2004	2009	7.90
Total Tax Rate			$75.60

The School District also has levies for bonded debt and permanent improvements totaling $2.07 per $1,000 of assessed valuation. The School District's total rate is $77.67 per $1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues, other than emergency and bond levies, are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial and industrial property. The effective residential and agricultural rate is $34.45 per $1,000 of assessed valuation and the effective commercial and industrial rate is $43.22 per $1,000 of assessed valuation for collection year 2005. Rates applied to tangible personal property are not reduced.

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the calendar year are recorded as revenue in the next fiscal year. New and/or expiring levies result in one-half of the annual revenue being recorded in the first and/or last year of collection. In November 2003, a three mill continuing operating levy was approved by the voters of the School District with fiscal year 2004 being the first year of collection. In fiscal 2004, approximately $2,480,000 was received and the levy is anticipated to generate $4,960,000, annually. In August 2004, a five year, 7.9 mill emergency operating levy was approved with fiscal year 2005 being the first year of collection. In fiscal year 2005, approximately $7,500,000 is anticipated to be received and the levy is estimated to generate $15,000,000, annually. The new revenue generated by these levies is recorded in the general property tax, tangible personal property tax, and property tax allocation accounts.

General Property Tax (Real Estate)

In fiscal year 2004, assessed real property values increased approximately $235 million due to a three year re-valuation of property in the county. The re-valuation is anticipated to generate an additional $550,000 in fiscal years 2005 and $1,100,000 in 2006 and each fiscal year thereafter. In fiscal year 2007, the county will complete a full reappraisal of all property and the assessed value is anticipated to increase 15 percent or $248 million. The School District anticipates additional revenue from the reappraisal of approximately $600,000 in fiscal years 2007 and $1,200,000 in fiscal year 2008 and each fiscal year thereafter. These increases are generated from the 4.8 mill, un-voted property tax levy authorized by State law.

The School District generally does not request June advances against the August real estate tax settlement, which is intended to finance the next fiscal year. The forecast does not include any June advances against the scheduled August settlement of real property taxes. These potential advances have been excluded due to the School District's inability to appropriate this revenue until received in cash and the uncertainty of the timing of the advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005 and beyond. In fiscal year 2002, the School District received $1,500,000 as an advance against fiscal year 2003 property tax revenues.

Tangible Personal Property Tax

Tangible personal property tax includes the final June personal property tax settlement from the prior fiscal year, the October personal property tax settlement, and an advance of $2,500,000 against the June personal property tax settlement. The June personal property tax settlement has historically been settled in July of the following fiscal year. The School District does not anticipate the timing of the settlements to change in the forecast period.

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 will be phased down from 88 percent to 25 percent over a three year period.

Effective for tax years 2005 and 2006, the assessment rate on inventory, currently at 23 percent, will 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. If collections do not meet this condition, the assessments rate will be reduced one percent. Effective for tax year 2007 and beyond, the assessment rate for inventory will be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

These changes have been taken into account in the estimates for tangible person property tax revenue resulting in decreased revenue for each year of the forecast. The decreases are partially offset by additional revenue generated by the new levies passed in November, 2003 and in August of 2004.

The State exempts the first $10,000 in personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State will phase out the reimbursement by 10 percent each year. The reimbursement is included in the tangible personal property tax revenues.

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, are provided to address certain policy issues or correct flaws in formula aid. The School District does not receive any revenue from these other programs.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation. The per pupil foundation level for fiscal year 2002 was set by State legislature at $4,490 and $4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 at $5,058 and $5,169 for fiscal year 2005. The base cost per pupil for fiscal years 2006 through 2009 is yet to be set by the Ohio General Assembly.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005
Formula Aid	$13,923,000	$13,708,000	$11,896,000	$9,846,000
Basic Aid Guarantee	0	0	1,289,000	3,441,000
Categorical Funding	1,184,000	1,285,000	1,338,000	1,262,000
Transportation	1,674,000	1,863,000	2,084,000	1,968,000
Preschool Classroom Units	282,000	132,000	348,000	346,000
Other Adjustments	674,000	(39,000)	280,000	(64,000)
Utility Deregulation Reimbursement	364,000	522,000	736,000	728,000
Total	$18,101,000	$17,471,000	$17,971,000	$17,527,000

Formula aid is decreasing due to a decline in ADM, and an increase in the School District's recognized property valuation. These amounts are offset by increases in per pupil funding amounts. Prior to fiscal year 2004, drops in ADM were not recognized entirely in one year. To spread the drop over several years, a three year average ADM was used to calculate formula aid. Beginning in fiscal year 2004, the formula aid formula was changed to eliminate the use of the three-year average ADM. This change forced an immediate reduction of 306 in ADM for fiscal year 2004.

Basic Aid Guarantee is the amount of aid in addition to current year's calculated formula aid needed to bring the School District up to the fiscal year 1998 funding level, the guaranteed amount. The increase in basic aid guarantee is due to the decrease in formula aid caused by the combination of a decrease in ADM and an increase in property valuation.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes 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 anticipates this revenue to remain constant for the forecast period.

C. Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance and the career tech monies. For fiscal year 2005, the School District is projected to receive $468,000 in restricted grants in aid, which consists of $307,000 in bus purchase allowance monies and $161,000 in career tech monies. The $55,000 increase over the prior fiscal year is due to the School District anticipating reimbursement for handicapped bus purchases. For fiscal year 2006, bus purchase monies are estimated to be reduced by $196,000 and career tech monies are expected to increase by $12,000, and remain at these levels through fiscal year 2009.

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 homestead and rollback tax relief programs. Property tax allocation revenue is anticipated to increase due to the 3 mill levy passed in November 2003 and the 7.9 mill levy passed in August 2004 and, remain at approximately 12 percent of general property tax revenues for the remainder of the forecast period.

F. All Other Revenues

All other revenues include tuition, interest on investments, rentals, and miscellaneous receipts from local sources.

	Forecasted				
	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Tuition	$551,000	$253,000	$253,000	$253,000	$253,000
Interest on Investments	127,000	125,000	125,000	150,000	150,000
Classroom Materials and Fees	42,000	50,000	50,000	50,000	50,000
Student Fees	346,000	374,000	374,000	374,000	374,000
Rentals	48,000	48,000	48,000	48,000	48,000
Sale of Capital Assets	7,000	7,000	7,000	7,000	7,000
Refund of Prior Year Expenditures	40,000	66,000	66,000	66,000	66,000
Miscellaneous	100,000	198,000	198,000	198,000	198,000
Totals	$1,261,000	$1,121,000	$1,121,000	$1,146,000	$1,146,000

The School District receives tuition for students that are developmentally handicapped or have learning disabilities. A decrease is anticipated in fiscal year 2006 due to the collection of delinquent tuition payments from other school districts in fiscal year 2005.

Interest revenue was higher prior to fiscal year 2003 because the School District had more cash available to invest. However, during fiscal year 2003, interest revenue decreased significantly due to declining interest rates and cash flow problems. Forecasted interest is expected to remain somewhat consistent with fiscal year 2004 with anticipated increases as the cash flow for the School District returns to normal. The School District pools cash from all funds for investment purposes. 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.

G. Other Financing Sources

Solvency Assistance Advance

The School District received a solvency assistance advance of $17,000,000 to meet the needs of the general fund for fiscal year 2004. The advance will be repaid during fiscal years 2005 and 2006. No additional advances are anticipated during the forecast period.

Proceeds of Notes

During fiscal year 2004, the School District issued tax anticipation notes in the amounts of $10,000,000 due June 15, 2004 in anticipation of current year tax revenues. In addition, the School District issues $2,480,000 in five-year tax anticipation notes with an interest rate of 3.50 percent in anticipation of the proceeds from the three mill continued operating levy. In fiscal year 2005, the School District issued $7,000,000 in tax anticipation notes against a 7.9 mill emergency levy approved in August 2004.

Transfers In

Transfers in represent amounts received from other funds in the forecast year 2002. No transfers in are expected in fiscal years 2005 to 2009.

Advances In

Advances in represents amounts loaned to grant funds in the current or prior fiscal years which are being repaid to the general fund during the forecast period. The School District anticipates the repayment of advances to other funds in the amount of $50,000 for fiscal years 2006 through 2009. The $590,000 in fiscal year 2005 represents the repayment of advances from fiscal year 2004.

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. Personal Services

Personal services 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, and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period August 2002 through August 2005. On April 5, 2004, an agreement was reached that extended the contract to August 2006. The contract allowed for a base salary increase in fiscal year 2004 of 4.25, 1.45 percent in fiscal year 2005, and a 2.25 percent base salary increase in fiscal year 2006. Annual step increases range from 3.4 percent to 7.2 percent depending on years of experience and education levels.

Classified staff salaries are also based on a negotiated contract which includes base and step increases. The contract covers the period August 2002 through August 2005. On March 8, 2004, an agreement was reached that extended the contract for one year. The agreement reduced the base salary increase for fiscal year 2005 from 4.25 percent to 2.25 percent in addition to other concessions. Annual step increases range from 3.0 percent to 4.7 percent depending on years of experience and classification.

The School District has assumed annual increases similar to the current negotiated agreements for the fiscal years of the forecast not covered by the contracts. These agreements are subject to negotiations and approval by the Board of Education. The likelihood of achieving similar base increases for fiscal years 2007 through 2009 is unknown and the realization of the forecast is particularly sensitive to any increase in the base salaries. An increase of one percent in the base salaries in 2007 would increase total expenditures for salaries including pension contributions by approximately $644,000 for that fiscal year. The effect of a one percent base salary increase in each of the fiscal years 2007 through 2009 would increase total expenditures by approximately $3,890,000.

The School District implemented a reduction in force in fiscal year 2004 and again in fiscal year 2005. The table below identifies the changes in staff levels as a result of the reduction in force.

Staff Reduction (Full-time Equivalents)

	Teachers	Administrators	Classified	Total
Phase I	39.0	8.0	19.0	66.0
Phase II	101.0	0.0	31.0	132.0
Phase III (net)	54.0	2.0	25.5	81.5
Additional Reductions	0.0	0.0	15.0	15.0
Total Staff Reductions	194.0	10.0	90.5	294.5
Recalls	(64.5)	0.0	(21.0)	(85.5)
Net Reductions is Staff	129.5	10.0	69.5	209.0
Total Staff Before Reductions	711.0	46.0	454.0	1,211.0
Total Staff After Reductions	581.5	36.0	384.5	1,002.0

In addition to the above reductions in staff, the School District closed the Center Street elementary school and eliminated 13.5 full-time equivalent employees. In fiscal year 2006, an increase of six certified positions and seven classified positions is anticipated. These positions are yet to be recommended by the Superintendent and approved by the Board of Education.

In fiscal year 2006, there are 27 pay dates. The annual salary for all contract employees is divided by 27 rather than the 26, the normal number of pay dates in the fiscal year. Total salary expenditures for contract employees is unaffected; however, an increase of approximately $1,023,000 in fiscal year 2006 is anticipated for classified staff.

Certified and classified employees who retire with five years of service with the School District are eligible for severance pay. Severance payment is equal to twenty-five percent of unused sick leave up to a maximum of fifty-three days times the employees' daily rate. For fiscal years 2003 through 2005, the School District has offered a retirement incentive bonus. Any certified employee who is or becomes eligible to retire during fiscal years 2003 through 2005, and retires in the first year of eligibility, receives additional severance of $40,000. If the employee retires during their second year of eligibility, the employee will receive an additional $15,000. Any certified employee who is eligible to retire after 2005 and retires in the first year of eligibility receives an additional $15,000. A certified employee retiring during their second year of eligibility will receive an additional $7,500. Any classified employee who is eligible for retirement before July 1, 2004, and retires in the first year of eligibility during fiscal year 2005 receives forty percent of the employee's highest annual earnings. Classified employees who are past their first year of eligibility and retire in fiscal year 2005 receive a one time bonus of 25 percent of the employee's highest earnings. The retirement incentive bonus expires at the end of fiscal year 2005 for classified employees and at the end of fiscal year 2006 for certified employees. The retirement incentive bonus is paid over four years.

The School District has 40 certificated staff and 15 classified staff that have chosen the retirement incentive bonus and severance in fiscal year 2005. It is estimated that 15 certificated staff and 5 classified staff will take the retirement incentive bonus and severance pay in fiscal year 2006. The School District anticipates 10 certificated staff and 5 classified staff to retire in fiscal year 2007 and 5 certificated staff and 5 classified staff for fiscal years 2008 and 2009.

Substitute costs are forecasted to decrease from the prior fiscal year as the result of the reduction in force. The number of supplemental contract positions and tutor positions were also reduced. As a cost-cutting measure, overtime was reduced in fiscal year 2005 but it is anticipated to have a slight increase in fiscal years 2007 through 2009.

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

Presented below is a comparison of salaries and wages for fiscal years 2005 through 2009.

	Forecasted				
	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Certified Salaries	$36,720,000	$38,794,000	$40,624,000	$43,018,000	$45,313,000
Classified Salaries	9,646,000	10,327,000	10,462,000	11,162,000	11,705,000
Substitute Salaries	1,462,000	1,462,000	1,462,000	1,462,000	1,462,000
Supplemental Contracts	1,221,000	1,290,000	1,350,000	1,430,000	1,506,000
Severance Pay	278,000	304,000	522,000	424,000	237,000
Overtime	284,000	284,000	292,000	301,000	310,000
Other Salaries and Wages	2,033,000	2,135,000	2,346,000	2,350,000	2,026,000
Totals	$51,644,000	$54,596,000	$57,058,000	$60,147,000	$62,559,000

B. Employees' Retirement/Insurance Benefits

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

Retirement costs are based on the employers' contribution rate of fourteen percent of salaries for STRS and SERS members. The payments are deducted over the next calendar year from the semi-monthly State foundation settlements based on an estimate of the salaries and wages for the fiscal year submitted to the pension systems in the first quarter of each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. The School District also pays the employee's retirement contributions of 10 percent for certain administrative staff.

Worker's compensation premiums are based on the School District's rate and the anticipated salaries for the fiscal year. They are forecasted to increase ten percent each year. The School District will continue to participate in the Ohio School Board's program and will operate under the assumption that the rebates as previously offered will not be offered in fiscal years 2005 through 2009.

Health care costs are based on the type coverage (single or family), terms of the existing health insurance contracts, the anticipated number of employees participating in the programs, and the monthly premiums. The School District offers health care programs with several different providers. Depending on the program selected by the employee, the School District pays a portion or the entire monthly premium. Health care costs have increased between 8 to 28 percent over the past years, depending on the provider. The increase in health care costs has been offset by the waiver program and the staff reductions. The waiver program allows employees to receive a $1,200 payment in lieu of health insurance. The School District anticipates health insurance premiums to increase 15 percent each year.

Dental, life and vision insurance premiums are based on the coverage terms of the existing contracts, the anticipated number of employees participating in the program and the monthly premiums. It is anticipated that dental insurance rates will increase 7.5 percent annual and life and vision insurance rates will remain constant during the forecast period.

The School District anticipates paying unemployment benefits of $1,462,000 during fiscal year 2005 due to the staff reductions. For fiscal years 2006 through 2009, it is expected that unemployment costs will remain constant at $50,000 each year.

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

Presented below is a comparison of fiscal years 2005 through 2009.

	Forecasted				
	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Employer's Retirement	$8,330,000	$7,486,000	$7,860,000	$8,260,000	$8,724,000
Health Care/Life Insurance	6,508,000	7,424,000	8,457,000	9,643,000	11,003,000
Medicare	539,000	590,000	637,000	688,000	743,000
Workers' Compensation	545,000	599,000	659,000	725,000	798,000
Unemployment	1,462,000	50,000	50,000	50,000	50,000
Other Reimbursements	16,000	20,000	20,000	20,000	20,000
Totals	$17,400,000	$16,169,000	$17,683,000	$19,386,000	$21,338,000

C. Purchased Services

The School District implemented cost-cutting procedures in fiscal year 2004, reducing costs by nearly $520,000. While the School District is continuing to watch the spending, an average a three percent increase each fiscal year is anticipated.

Legal services are expected to increase in fiscal year 2006 due to employee union negotiations. For the rest of the forecast period they are expected increase eight percent from fiscal year 2005. Rentals and leases will decrease due to the payoff of a photocopier during fiscal year 2004 and the buses in 2007. Pupil transportation is for contracted services to provide all forms of transportation to the special education students, as well as parent reimbursements. An estimated increase of six percent is anticipated each year.

Utilities for fiscal year 2005 reflect a slight decrease due to the closing of the Center Street Village Elementary School during fiscal year 2004. It has been assumed that utilities will increase at a rate of three percent per year of the forecast for telephones, four percent for electricity, two percent for water and sewer, and five percent for natural gas.

Tuition payments are made by the Board of Education to other districts for special education students and certain students involving court placements or special programs. It has been assumed that the number of special education students will remain the same and that there will be a six percent increase in tuition in each of the years forecast.

Presented below is a comparison of forecasted purchased service expenditures for fiscal years 2005 through 2009.

	Forecasted				
	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Purchased Services	$1,126,000	$1,159,000	$1,194,000	$1,230,000	$1,267,000
Legal Services	275,000	350,000	300,000	300,000	300,000
Insurance	222,000	274,000	301,000	330,000	364,000
Travel and Meeting Expenses	47,000	48,000	50,000	51,000	53,000
Repairs	837,000	862,000	888,000	915,000	942,000
Rentals	214,000	171,000	176,000	182,000	187,000
Leases - Buses	215,000	215,000	215,000	0	0
Pupil Transportation	504,000	534,000	566,000	600,000	636,000
Utility Services	1,796,000	1,871,000	1,949,000	2,030,000	2,115,000
Tuition Payments	2,469,000	2,618,000	2,775,000	2,942,000	3,118,000
Totals	$7,705,000	$8,102,000	$8,414,000	$8,580,000	$8,982,000

D. Supplies and Materials

Presented below is a comparison of forecasted supplies and materials expenditures for fiscal years 2005 through 2009.

	Forecasted				
	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
General Supplies, Library Books and Periodicals	$732,000	$754,000	$777,000	$801,000	$825,000
Textbooks	750,000	773,000	796,000	819,000	844,000
Office Supplies	142,000	146,000	150,000	155,000	159,000
Maintenance Supplies	410,000	422,000	435,000	448,000	461,000
Vehicle Supplies	495,000	529,000	566,000	605,000	649,000
Totals	$2,529,000	$2,624,000	$2,724,000	$2,828,000	$2,938,000

Supplies and materials decreased during fiscal year 2004 due to cost-cutting procedures implemented by the School District. The School District anticipates an increase of up to four percent for fiscal years 2005 through 2009. The School District intends to purchase supplies and materials as necessary and to satisfy its annual set-aside requirements.

Currently, the primary funding source for textbooks is payment received from the City in lieu of property taxes as a result of tax abatement programs. This revenue source has been declining since fiscal year 2002; however, the fiscal year 2005 budget provides $750,000 for the purchase of science textbooks. Beginning with fiscal year 2006, the budget is increased three percent each year and will be supplemented by approximately $200,000 annually from payments in lieu of taxes.

For vehicle supplies, it is anticipated that fuel costs will increase by ten percent each year and all other associated costs will increase by three percent. The fiscal year 2005 expenditures were reduced to reflect approximately twelve less buses in operation.

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 capital assets as the purpose of the financial statements for the general government services is to report the expenditure of resources, not costs.

During fiscal year 2004 as part of cost-cutting measures, capital outlay expenditures decreased $799,000 from fiscal year 2003. This lower spending threshold will be carried over into the forecasted fiscal years of 2005 - 2009. The cost of a replacement schedule for all the technology acquired throughout the School District has yet to be determined. It is anticipated that the cost of funding a technology replacement schedule will be a shared responsibility between the General Fund, the Permanent Improvement Fund, and State Grant Funds. The projected spending level does not include any allocation for replacement of classroom furniture or any other new or replacement vehicles.

The School District has a young bus fleet. Nineteen new school buses were acquired since fiscal year 2003. As stated earlier, twelve buses will not be operated in fiscal year 2005. No new bus purchases are anticipated during the forecast period. An increase of ten percent each year of the forecast period has been projected to stay with current inflation and other factors.

F. Debt Service

General fund supported debt consists of current year tax anticipation notes for cash flow purposes, energy conservation notes, a solvency assistance advance, and long-term tax anticipation notes.

The School District issued notes in the amount of $5,000,000, under Section 135.10(H), Revised Code, within the last 10 days of fiscal year 2003 in anticipation of fiscal year 2004 tax revenues. These notes were retired in fiscal year 2004. The School District also issued $10,000,000 in tax anticipation notes payable from fiscal year 2004 tax revenues. These notes were also retired in fiscal year 2004. Both note issues were for cash flow purposes.

On December 30, 2003, the School District issued tax anticipation notes in the amount of $2,480,000 in anticipation of the collection of a three mill continuing operating levy. The notes are retired in equal annual payments of $496,000 beginning in December 2005 with the final maturity in December 2009.

On September 30, 2004, the School District issued tax anticipation notes in the amount of $7,000,000 in anticipation of the collection of a $15,000,000 emergency operating levy. The notes are retired in equal annual payments of $1,400,000 beginning in December 2005 with the final maturity in December 2009.

The School District has two outstanding energy conservation notes from prior years in the amount of $1,410,000 as of June 30, 2004. The final payment on one issue in the amount of $250,000 will be made in fiscal year 2005. The other note issue has annual debt service payments of $77,000 through fiscal year 2019.

In fiscal year 2004, the School District received $17,000,000 in a solvency assistance advance from the State of Ohio to finance the general fund operations. The advance is repaid over a two year period interest free. The amount due in fiscal year 2005 and 2006 is $8,500,000.

A summary of the principal and interest payments for the forecast period are as follows:

Fiscal Year	Principal	Interest	Total
2005	$9,323,000	$232,000	$9,555,000
2006	10,473,000	264,000	10,737,000
2007	1,973,000	206,000	2,179,000
2008	1,973,000	147,000	2,120,000
2009	1,973,000	88,000	2,061,000
2010 - 2014	1,785,000	54,000	1,839,000
2015 - 2018	390,000	10,000	400,000
Totals	$27,890,000	$1,001,000	$28,891,000

G. Other Objects

Other Objects includes dues, fees, liability insurance and other miscellaneous goods and services not otherwise classified in other accounts. Auditor and Treasurer fees are a function of the amount of property taxes collected. The School District has not assumed any change in State law that would increase the statutory percentages assessed for the collection of property taxes, but has factored in the increase as a result of the November 2003 and the August 2004 levies. In addition, approximately $34,000 annually has been included for the fee assessed by the Ohio Department of Taxation.

The School District is assuming a ten percent increase to the annual premium for general liability insurance during the forecasted periods.

Other expenses include shipping and freight charges, audit fees, dues, membership fees, taxes, County Board of Education deductions, bank charges, election expenses, delinquent tax collection fees and miscellaneous payments. A three percent per year increase has been forecasted for other expenses. For fiscal year 2005, an additional $60,000 has been forecasted for election expenses related to the August 2004 levy.

H. Transfers and Advances

The School District is forecasting that transfers out will remain consistent in fiscal years 2006 through 2009. The School District anticipates $20,000 in transfers to athletics, $90,000 to gifted programs and $220,000 to other funds in fiscal year 2005. Advances to various State and Federal grant programs that are awaiting quarterly payments should remain consistent at $50,000 for each year of the forecast.

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 budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund balance. Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other object expenditures for fiscal year 2004 were $1,566,000. The School District anticipates that encumbrances for fiscal years 2005 through 2009 will be consistent with fiscal year 2004.

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 future years.

A. Textbooks and Instructional Materials

The set aside requirement for fiscal year 2005 is $1,399,000. There was a carryover of ($10,000) from fiscal year 2004. The School District anticipates $1,482,000 in qualifying expenditures in fiscal year 2005; therefore, no reserve is required. For fiscal years 2006 through 2009, the School District anticipates the same set aside amount and qualified expenditures to exceed the set aside requirement.

B. Acquisition and Construction of Capital Improvements

The set aside requirement for fiscal year 2005 is $1,399,000. The School District anticipates $795,000 in offsets and $607,000 in qualifying expenditures in fiscal year 2005; therefore, no reserve is required. For fiscal years 2006 through 2009, the School District anticipates the same set aside amount and qualified expenditures and offsets to exceed the set aside requirement.

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.

Note 10 - Levies

The School District passed a 7.9 mill levy on August 3, 2004 election. This levy is expected to generate $15,000,000 in revenues annually with collections beginning in fiscal year 2005. The type of levy, rate, term, and election results are as follows:

Date	Type	Amount	Term	Election Results
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
March 2, 2004	Emergency	15 million	5 years	Failed
August 3, 2004	Emergency	15 million	5 years	Passed

During the forecast period, the 2002 Permanent Improvement levy will expire in 2007 and the 2004 Emergency levy will expire in 2009. The School District anticipates these levies to be renewed.

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.

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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, 2005