



**Mary Taylor, CPA**  
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**Forecasting-The  
How's and Why's of  
an Essential Skill**

Presented by: Local  
Government Services

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**What services can you afford?**

- Can you afford a new or currently existing service?
- How do you know if you can or can't afford them?
  - What are your "real" current revenues?
  - What are your "real" current expenses?
- Do you have reserves for an emergency or downturn in the economy?
- What is the long-term effect of these new/existing services?

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**Who should be involved in the forecasting/budgeting process?**

- Chief Operating Officer(s) – Mayor, City Manager, Trustees
- Chief Financial Officer – Finance Director, Auditor, Fiscal Officer
- Department heads
- Process should be all inclusive so that all parties are aware of the financial situation and priorities can be set.

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### Long-Term Planning

- Need for Long-Term Planning
  - Identify programs, activities, service levels – Prior Appropriations Measure
  - Identify projects and their duration
  - Identifies funding sources and amounts – Certificate of Estimated Resources
  - Sets priorities and document plans
  - Determine effect on community (orange barrels) and duration of the project



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### Long-Term Planning

- What Should a Long-Term Plan Include?
  - An Operating Plan
  - A Capital Plan



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### Long-Term Planning

- Long-Term Operating Plan
  - Based on historical trends
    - » assumes existing programs will continue at the same level of service, now and in the future.



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### Long-Term Planning

- Long-Term Operating Plan
  - A more formal approach would include:
    - Adjustments for new or terminated activities
    - Adjustments for increased or decreased services
    - Adjustments for unusual or infrequent items
    - Assessing current activities to determine a less expensive means of providing services
    - Review of tax levies (new, replacement, renewal)
    - Subsidies to other operating funds

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### Long-Term Planning

- Capital Plans
  - Plan for capital expenditures over a period of years
  - Sets forth each project or other contemplated expenditure in which the local government is to have a part
  - Identifies the resources to be available to finance the project

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### Long-Term Planning

- Which Plan should come first?
  - Operating Plan
  - Capital Plan

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### Long-Term Planning

- Where do you Start?
  - Develop a list of projects - no ceiling, include roads, bridges, buildings, parks and recreation facilities
  - Identify replacement of existing vehicles and equipment
  - Set priorities
  - Identify resources to finance the expenditures

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### Long-Term Planning

- Approaches to Financing Capital Needs
  - An all borrowing policy - debt limitations and available resources to pay debt come into play
  - Capital reserve plan - accumulating, annual, resources for projects
  - Partial pay-as-you-go - is a common approach, some accumulation of resources and the balance with debt
  - Pay-as-you-go plan - uses existing cash, works if not behind on projects, no backlogs, no emergencies, and budget can absorb variances/spikes from one year to another

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### Long-Term Planning

- Tools Available for Capital Expenditures
  - Notes and Bonds - inside or outside millage
  - Special levies
  - Grants
  - Special assessments
  - Reserve Accounts

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**Long-Term Planning**

- Tools Available for Capital Expenditures
  - Types of Reserve Accounts
    - » Budget reserve
    - » Termination benefits
    - » Capital improvements

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**Long-Term Planning**

- Reserve Balance Accounts (ORC 5705.29)
  - A taxing authority may establish a reserve balance account for the following:
    - » To stabilize the budget
    - » To provide for the payment of self-insurance claims
    - » To provide for the payment of claims under a retrospective ratings plan for workers' compensation

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**Long-Term Planning**

- Reserve Balance Accounts
  - Shall be established in the general fund
  - Shall not exceed five per cent of the general fund revenue for the preceding year

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### Long-Term Planning

- Termination Benefits
  - Established as a special revenue fund
  - Accumulates resources for the payment of sick leave and vacation leave, and for payments in lieu of taking compensatory time off
  - Payments are upon the termination of employment or the retirement.

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### Long-Term Planning

- Capital Improvements
  - Should be established as a capital projects fund
  - Accumulates resources for the acquisition, construction, or improvement of capital assets
  - "Capital Assets" includes motor vehicles
  - More than one capital projects fund may be established and may exist at any time

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### Long-Term Planning

- Capital Improvements
  - The ordinance or resolution shall identify:
    - The source of the money to be used
    - The amount of money to be accumulated
    - The period of time over which that amount is to be accumulated
    - The capital assets to acquire, construct, or improve with the money.

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### Long-Term Planning

- Capital Improvements
  - The time limit to obligate resources is five years
  - If no contract, the fiscal officer is to return all money to the originating fund or funds
  - A taxing authority may rescind a capital projects fund with the money returned to the originating fund or funds

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### Long-Term Planning

- What type of Legislative approval should there be?
  - Long-Term Operating Plan
    - » Choice of the Legislative Body
    - » Commitment is the current year Appropriation Measure
  - Capital Plans
    - » Choice of the Legislative Body
    - » Commitment to a project takes place when appropriated and bids are authorized

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### Financial Forecasts

- What is a financial forecast?
- A financial forecast is prospective financial statements that present to the best of the management's knowledge and belief, the government's expected revenues, expenditures and fund balance.
  - It is based on management's assumptions reflecting conditions it expects to exist and the course of action it expects to take.

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### Financial Forecasts

- **Management** – Those persons who are expected to direct the operations of the entity during the prospective period. Management typically refers to those persons at the highest level of authority within the entity.
- **Assumptions** – The building blocks for the forecast developed from the key factors. They identify significant matters that are expected to occur, based on an entity's plans.

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### Financial Forecasts

- **Key Factors** – The significant matters on which a government's future results are expected to depend. Such factors are basic to the government's operations and thus encompass matters that affect, among other things, the government's financial activities. Key factors serve as a foundation for prospective financial information and are the basis for the assumptions.

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### Financial Forecasts

- A financial forecast is used:
  - As a planning tool
  - To identify to governments whether they can do the projects they are planning.
  - To identify to governments whether or not they are headed toward financial difficulty.

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### Financial Forecasts

- What are management's responsibilities?
  - Reasonableness of the assumptions
  - Preparation of the forecast
  - Accuracy of the presented figures

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### Forecast Preparation Guidelines

- AICPA "Guide for Prospective Financial Information" provides general guidelines to the responsible party for preparing financial forecasts. These are:
  - Forecasts should be prepared in good faith
  - Forecasts should be prepared with appropriate care by qualified personnel
  - Forecasts should be prepared using appropriate accounting principals

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### Forecast Preparation Guidelines

- Assumptions used in preparing forecasts should be appropriate
- Key factors should be identified as a basis for the assumptions
- Information used in preparing forecasts should be consistent with the plans of the entity

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**Forecast Preparation Guidelines**

- Process used to develop forecasts should provide a means to determine the relative effect of variations in the major assumptions (salaries)
- Process used should provide adequate documentation of the forecast and the process used to develop it
- Process used to develop forecasts should provide for seeking out the best information that is available at the time



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**Forecast Preparation Guidelines**

- Process used to develop forecasts should include the regular comparison of the forecast with the actual results
- Process used to prepare forecasts should include adequate review and approval by the responsible party at the appropriate levels of authority



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**Assumptions and Key Factors**

- Property Taxes
  - The type of levies, rate or dollar amount, year of approval, first and last year of collection
  - Full and effective rates (real and commercial)
  - Assessed valuations
  - Triennial and sexennial updates
  - Delinquent taxes and collections
  - New and expiring levies
  - Current amended certificate



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**Assumptions and Key Factors**

- Municipal Income Taxes (Villages only)
  - Levy rate and effective period
  - Department of Taxation estimates
  - Income trends for area
  - Unemployment trends for area
  - New businesses for area

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**Assumptions and Key Factors**

- Local government revenues
- Inheritance taxes
- Grants
- Homestead and Rollback

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**Assumptions and Key Factors**

- Fines and Fees
- Interest
- Licenses and Permits
- Rentals
- Miscellaneous

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**Assumptions and Key Factors**

- Personal Services
  - Bargaining unit contract dates (predominantly Villages)
  - Salary schedules
  - Staff positions
  - Severance pay
  - Retirement incentives
  - Computation of salaries (old/new rates)

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**Assumptions and Key Factors**

- Fringe Benefits
  - Pension payments (% of salaries) and the method of payment
  - Health Care Benefits
  - Purchase of service credit
  - Workers' compensation premiums/rates/rebates
  - Other benefits

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**Assumptions and Key Factors**

- Contractual Services/Materials and Supplies
  - Significant contractual obligations
  - Materials and supplies needed
  - Inflation factor
  - Utilities

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**Assumptions and Key Factors**

- Capital Outlay
  - Capital Assets to be purchased
    - Land
    - Buildings
    - Furniture and Equipment
    - Vehicles

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**Assumptions and Key Factors**

- Debt Service
  - Principal and Interest on debt payments
    - Example: Street truck, fire truck, building debt issue

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**Assumptions and Key Factors**

- Miscellaneous
  - Other expenditures that don't fall into any of the other categories
  - Non-reoccurring items
  - Spending practices

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Assumptions and Key Factors

- Other Funds
  - Deficits or anticipated deficits
  - Fire Levy fund
  - Police Salary Levy fund

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**City of Noname**  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Basis  
For the Years Ended December 31, 2006 through 2008, Actual  
and Ending December 31, 2009 Through 2013, Forecasted

**General Fund**

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
<b>Revenues</b>								
Property Taxes	\$83,000	\$92,000	\$124,000	\$131,000	\$129,000	\$126,000	\$124,000	\$121,000
Municipal Income Taxes	491,000	412,000	415,000	418,000	420,000	423,000	426,000	428,000
Intergovernmental Revenue	107,000	142,000	141,000	112,000	114,000	117,000	119,000	122,000
Fines and Fees	37,000	65,000	41,000	48,000	48,000	48,000	48,000	48,000
Interest	0	2,000	13,000	13,000	13,000	13,000	13,000	13,000
Licenses and Permits	12,000	10,000	5,000	5,000	5,000	5,000	5,000	5,000
Rentals	20,000	17,000	25,000	21,000	0	0	0	0
Miscellaneous	24,000	132,000	170,000	47,000	42,000	42,000	42,000	42,000
<b>Total Revenues</b>	<b>774,000</b>	<b>872,000</b>	<b>934,000</b>	<b>795,000</b>	<b>771,000</b>	<b>774,000</b>	<b>777,000</b>	<b>779,000</b>
<b>Expenditures</b>								
<i>General Government</i>								
Mayor's Office								
Personal Services	26,000	32,000	36,000	34,000	35,000	35,000	36,000	36,000
Fringe Benefits	15,000	27,000	20,000	17,000	19,000	21,000	24,000	27,000
Contractual Services	2,000	1,000	3,000	5,000	5,000	5,000	5,000	5,000
Materials and Supplies	2,000	1,000	1,000	0	0	0	0	0
Capital Outlay	0	0	0	6,000	0	0	0	0
<b>Total Mayor's Office</b>	<b>45,000</b>	<b>61,000</b>	<b>60,000</b>	<b>62,000</b>	<b>59,000</b>	<b>61,000</b>	<b>65,000</b>	<b>68,000</b>
Council								
Personal Services	14,000	14,000	14,000	12,000	12,000	12,000	12,000	12,000
Fringe Benefits	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Total Council</b>	<b>\$16,000</b>	<b>\$16,000</b>	<b>\$16,000</b>	<b>\$14,000</b>	<b>\$14,000</b>	<b>\$14,000</b>	<b>\$14,000</b>	<b>\$14,000</b>

(continued)

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Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Basis  
For the Years Ended December 31, 2006 through 2008, Actual  
and Ending December 31, 2009 Through 2013, Forecasted

**General Fund (continued)**

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
Administrator								
Personal Services	\$5,000	\$5,000	\$5,000	\$8,000	\$10,000	\$10,000	\$10,000	\$10,000
Fringe Benefits	1,000	1,000	2,000	1,000	2,000	2,000	2,000	2,000
Contractual Services	1,000	0	1,000	1,000	1,000	1,000	1,000	1,000
Materials and Supplies	0	0	0	19,000	19,000	19,000	19,000	19,000
Total Administrator	<u>7,000</u>	<u>6,000</u>	<u>8,000</u>	<u>29,000</u>	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>
Legal Counsel								
Personal Services	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Fringe Benefits	2,000	3,000	2,000	3,000	3,000	3,000	3,000	3,000
Total Legal Counsel	<u>19,000</u>	<u>20,000</u>	<u>19,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Treasurer-Clerk								
Personal Services	30,000	31,000	33,000	38,000	46,000	47,000	48,000	49,000
Fringe Benefits	8,000	10,000	21,000	53,000	58,000	60,000	63,000	66,000
Contractual Services	16,000	4,000	8,000	8,000	8,000	8,000	8,000	8,000
Materials and Supplies	2,000	2,000	2,000	0	0	0	0	0
Capital Outlay	0	0	0	2,000	0	0	0	0
Miscellaneous	6,000	23,000	0	0	0	0	0	0
Total Treasurer-Clerk	<u>62,000</u>	<u>70,000</u>	<u>64,000</u>	<u>101,000</u>	<u>112,000</u>	<u>115,000</u>	<u>119,000</u>	<u>123,000</u>
Zoning and Planning								
Personal Services	1,000	0	3,000	3,000	3,000	3,000	3,000	3,000
Lands and Buildings								
Personal Services	0	0	1,000	0	0	0	0	0
Contractual Services	64,000	111,000	97,000	97,000	97,000	97,000	97,000	97,000
Materials and Supplies	2,000	7,000	6,000	0	0	0	0	0
Miscellaneous	0	0	0	15,000	0	0	0	0
Total Lands and Buildings	<u>\$66,000</u>	<u>\$118,000</u>	<u>\$104,000</u>	<u>\$112,000</u>	<u>\$97,000</u>	<u>\$97,000</u>	<u>\$97,000</u>	<u>\$97,000</u>

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Statement of Revenues, Expenditures, and Changes in Fund Balance - Cash Basis  
For the Years Ended December 31, 2006 through 2008, Actual  
and Ending December 31, 2009 Through 2013, Forecasted

**General Fund (continued)**

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
<i>Income Tax</i>								
Personal Services	\$26,000	\$27,000	\$14,000	\$0	\$0	\$0	\$0	\$0
Fringe Benefits	14,000	15,000	4,000	0	0	0	0	0
Contractual Services	2,000	2,000	10,000	13,000	13,000	13,000	13,000	13,000
Materials and Supplies	1,000	1,000	0	0	0	0	0	0
Miscellaneous	9,000	6,000	0	0	0	0	0	0
<b>Total Income Tax</b>	<b>52,000</b>	<b>51,000</b>	<b>28,000</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>
<i>Security of Persons and Property</i>								
<i>Police Department</i>								
Personal Services	155,000	176,000	199,000	204,000	210,000	217,000	223,000	230,000
Fringe Benefits	88,000	99,000	108,000	103,000	113,000	124,000	136,000	150,000
Contractual Services	30,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Materials and Supplies	16,000	25,000	20,000	12,000	12,000	12,000	12,000	12,000
Capital Outlay	1,000	0	18,000	21,000	6,000	6,000	6,000	6,000
<b>Total Police Department</b>	<b>290,000</b>	<b>322,000</b>	<b>367,000</b>	<b>362,000</b>	<b>363,000</b>	<b>381,000</b>	<b>399,000</b>	<b>420,000</b>
<i>Leisure-time Activities</i>								
<i>Parks</i>								
Personal Services	10,000	13,000	6,000	10,000	11,000	12,000	12,000	13,000
Fringe Benefits	14,000	7,000	2,000	6,000	7,000	8,000	9,000	10,000
Contractual Services	1,000	0	3,000	5,000	5,000	5,000	5,000	5,000
Materials and Supplies	1,000	2,000	2,000	0	0	0	0	0
Capital Outlay	0	7,000	0	6,000	0	0	0	0
<b>Total Parks</b>	<b>\$26,000</b>	<b>\$29,000</b>	<b>\$13,000</b>	<b>\$27,000</b>	<b>\$23,000</b>	<b>\$25,000</b>	<b>\$26,000</b>	<b>\$28,000</b>

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Statement of Revenues, Expenditures, and Changes in Fund Balance - Cash Basis  
For the Years Ended December 31, 2006 through 2008, Actual  
and Ending December 31, 2009 Through 2013, Forecasted

**General Fund (continued)**

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
<i>Miscellaneous</i>								
Other Expenditures								
Auditor and Treasurer Fees	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
County Health Department	4,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Election Fees	1,000	0	4,000	3,000	3,000	3,000	3,000	3,000
State Audit	0	25,000	22,000	13,000	22,000	1,000	19,000	0
Dog Warden	1,000	1,000	0	2,000	3,000	3,000	3,000	3,000
UAN Fees	0	0	2,000	3,000	3,000	3,000	3,000	3,000
Unemployment	3,000	0	0	0	0	0	0	0
Total Other Expenditures	11,000	33,000	35,000	28,000	38,000	17,000	35,000	16,000
<i>Total Expenditures</i>	595,000	726,000	717,000	771,000	774,000	778,000	823,000	834,000
<i>Excess of Revenues Over (Under) Expenditures</i>	179,000	146,000	217,000	24,000	(3,000)	(4,000)	(46,000)	(55,000)
<b>Other Financing Sources (Uses)</b>								
Transfers In	2,000	7,000	51,000	0	0	0	0	0
Transfers Out	(154,000)	(151,000)	(130,000)	0	0	0	0	0
Advances In	0	0	0	5,000	0	0	0	0
Advances Out	0	0	0	(7,000)	0	0	0	0
Total Other Financing Sources (Uses)	(152,000)	(144,000)	(79,000)	(2,000)	0	0	0	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	27,000	2,000	138,000	22,000	(3,000)	(4,000)	(46,000)	(55,000)
<i>Beginning Cash Balance</i>	40,000	65,000	53,000	190,000	207,000	199,000	190,000	139,000
<i>Ending Cash Balance</i>	67,000	67,000	191,000	212,000	204,000	195,000	144,000	84,000
Less Encumbrances:								
Actual/Estimated Encumbrances	2,000	14,000	1,000	5,000	5,000	5,000	5,000	5,000
<i>Unencumbered Fund Balance</i>	\$65,000	\$53,000	\$190,000	\$207,000	\$199,000	\$190,000	\$139,000	\$79,000

**City of Noname**  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Basis  
For the Years Ended December 31, 2006 through 2008, Actual  
and Ending December 31, 2009 Through 2013, Forecasted

**Fire Levy Fund**

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
<b>Revenues</b>								
Property Taxes	\$124,000	\$136,000	\$135,000	\$147,000	\$145,000	\$142,000	\$139,000	\$137,000
Intergovernmental Revenue	32,000	21,000	20,000	22,000	24,000	27,000	30,000	32,000
Miscellaneous	4,000	3,000	1,000	26,000	1,000	1,000	1,000	1,000
<b>Total Revenues</b>	<b>160,000</b>	<b>160,000</b>	<b>156,000</b>	<b>195,000</b>	<b>170,000</b>	<b>170,000</b>	<b>170,000</b>	<b>170,000</b>
<b>Expenditures</b>								
<i>Security of Persons and Property</i>								
<i>Fire Protection</i>								
Personal Services	132,000	119,000	93,000	93,000	95,000	98,000	100,000	103,000
Fringe Benefits	45,000	55,000	41,000	43,000	47,000	51,000	56,000	61,000
Contractual Services	5,000	5,000	3,000	3,000	3,000	3,000	3,000	3,000
Materials and Supplies	3,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000
Miscellaneous	3,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Expenditures</b>	<b>188,000</b>	<b>185,000</b>	<b>144,000</b>	<b>146,000</b>	<b>152,000</b>	<b>159,000</b>	<b>166,000</b>	<b>174,000</b>
<i>Excess of Revenues Over (Under) Expenditures</i>	(28,000)	(25,000)	12,000	49,000	18,000	11,000	4,000	(4,000)
<b>Other Financing Sources</b>								
Transfers In	95,000	40,000	118,000	0	0	0	0	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	67,000	15,000	130,000	49,000	18,000	11,000	4,000	(4,000)
<i>Beginning Cash (Deficit) Balance</i>	(168,000)	(101,000)	(89,000)	41,000	89,000	106,000	116,000	119,000
<i>Ending Cash (Deficit) Balance</i>	(101,000)	(86,000)	41,000	90,000	107,000	117,000	120,000	115,000
Less Encumbrances:								
Actual/Estimated Encumbrances	0	3,000	0	1,000	1,000	1,000	1,000	1,000
<b>Unencumbered Fund Balance (Deficit)</b>	<b>(\$101,000)</b>	<b>(\$89,000)</b>	<b>\$41,000</b>	<b>\$89,000</b>	<b>\$106,000</b>	<b>\$116,000</b>	<b>\$119,000</b>	<b>\$114,000</b>

**City of Noname**  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Basis  
For the Years Ended December 31, 2006 through 2008, Actual  
and Ending December 31, 2009 Through 2013, Forecasted

**Police Salary Levy Fund**

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
<b>Revenues</b>								
Property Taxes	\$31,000	\$34,000	\$34,000	\$37,000	\$36,000	\$35,000	\$34,000	\$33,000
Intergovernmental Revenue	7,000	5,000	5,000	5,000	6,000	7,000	8,000	9,000
<b>Total Revenues</b>	<b>38,000</b>	<b>39,000</b>	<b>39,000</b>	<b>42,000</b>	<b>42,000</b>	<b>42,000</b>	<b>42,000</b>	<b>42,000</b>
<b>Expenditures</b>								
<i>Security of Persons and Property</i>								
Police Department								
Personal Services	35,000	37,000	39,000	42,000	42,000	42,000	42,000	42,000
Miscellaneous	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Expenditures</b>	<b>36,000</b>	<b>38,000</b>	<b>40,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,000	1,000	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
<i>Beginning Cash Balance</i>	6,000	8,000	9,000	8,000	7,000	6,000	5,000	4,000
<i>Ending Cash Balance</i>	8,000	9,000	8,000	7,000	6,000	5,000	4,000	3,000
Less Encumbrances:								
Actual/Estimated Encumbrances	0	0	0	0	0	0	0	0
<b>Unencumbered Fund Balance</b>	<b>\$8,000</b>	<b>\$9,000</b>	<b>\$8,000</b>	<b>\$7,000</b>	<b>\$6,000</b>	<b>\$5,000</b>	<b>\$4,000</b>	<b>\$3,000</b>

City of Noname, Ohio  
Summary of Significant Accounting Policies and Forecast Assumptions  
For the Years Ending December 31, 2009 through 2013

**Note 1 – The City**

The City of Noname (the “City”) is located in Somewhere County, Ohio, approximately 50 miles south of the City of Elsewhere and has a population of approximately 4,300. The City was incorporated on February 6, 1833, and began operating as a City in 1890; however, after the 1990 census, the City reverted to a City on January 2, 1992. The City operates as a statutory City with the decision making process being directed by an elected City Council (Council) and Mayor.

The City of Noname provides general governmental services, sewer services, park operations (leisure time activities), fire and police protection and community development. The City’s departments include administration, cemetery, dog warden, fire, maintenance, police, street, zoning, and sewer. The administration includes the mayor, clerk-treasurer, administrator, solicitor, income tax officer, Council, parks, and land and buildings. The operation of each of these activities is directly controlled by the City Council through the budgetary process.

**Note 2 – Nature of Presentation**

This financial forecast presents, to the best of the City’s knowledge and belief, the expected revenues and expenditures and changes in fund balances for the forecast period. Accordingly, the forecast reflects the City’s judgment, as of October 20, 2009, the date of the forecast, the expected conditions, and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. 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.

The forecast presents the funds that are significant to the operations of the City. These funds include the general fund, fire levy fund and police salary fund.

**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 City 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 City 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, and accounting entity that stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

City of Noname, Ohio  
Summary of Significant Accounting Policies and Forecast Assumptions  
For the Years Ending December 31, 2009 through 2013

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Governmental Funds

General Fund

The general fund is the operating fund of the City 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 City 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 major capital projects) that are legally restricted to disbursements for specified purposes.

Capital Project Funds

Capital projects funds are 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 City, or to other governments on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds account for assets held by the City 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 the 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 adopted by City Council is established at the object level within each department and fund. Any budgetary modifications at these levels may only be made by resolution of Council. The Finance Officer has been given the ability to allocate appropriations beyond the levels adopted by Council.

Budget – A budget of estimated cash receipts and disbursements is submitted to the Columbiana County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the succeeding year.

City of Noname, Ohio  
Summary of Significant Accounting Policies and Forecast Assumptions  
For the Years Ending December 31, 2009 through 2013

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Estimated Resources – The county budget commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any funds during the ensuing 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 January 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. By March 31, an annual appropriation ordinance must be legally enacted by the City. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances – The City 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.

#### D. Property, Plant and Equipment

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

### **Note 4 – General Revenue Assumptions – All Funds**

#### A. Property Taxes

Property tax revenues consist of real property, public utility real and personal property, manufactured home and tangible personal property taxes. The City may request advances from the Somewhere County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the City 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. The City uses property tax levies to finance police and fire protection, cemetery operations, floodwall functions, and general fund operations.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the City for all revenue lost due to these exemptions. The amount of the reimbursement is presented in the account “intergovernmental revenue”. Beginning in 2006, the State of Ohio eliminated the ten percent rollback on commercial and industrial real property. This change will increase real property taxes collected against commercial and industrial property.

All property tax revenues are based on property valuations and levy rates. The County is required to reappraise property every six years and update the valuations every three years between the reappraisals. The last reappraisal was completed in 2008. The next triennial update will take place in 2011. Based on past years, the City anticipates consistent increases in real property assessed valuation. The City’s assessed values upon which property tax receipts were based for the last four years are as follows:

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Class of Property	2006	2007	2008	2009
Real Property				
Residential and Agriculture	\$15,291,410	\$17,133,780	\$17,271,970	\$19,276,140
Commercial and Industrial	4,071,370	4,307,970	4,594,270	4,862,010
Public Utility Personal Property	2,979,900	2,411,560	2,489,970	2,563,220
Tangible Personal Property	2,998,460	3,133,950	2,820,100	2,811,000
Total Assessed Value	<u>\$25,341,140</u>	<u>\$26,987,260</u>	<u>\$27,176,310</u>	<u>\$29,512,370</u>

The property tax revenues are generated from several levies. The levy type, the fund in which the proceeds are received, the original year approved, the latest renewal year, the first and last year of collection, and the full tax rate are as follows:

Levy Type	Fund	Original Year Approved	Latest Year Renewed	First Year of Collection	Last Year of Collection	Total Rate (Per \$1,000 of Assessed Valuation)
Inside Millage	General	n/a	n/a	n/a	n/a	2.6
Operating	General	1976	2006	2007	2011	1.0
Operating	General	1986	2006	2007	2011	1.0
Operating	Fire Levy	2002	2006	2007	2011	6.0
Operating	Cemetery	2000	2005	2006	2010	1.0
Operating	Police Salary Levy	2002	2006	2007	Continuing	1.5
Total						<u>13.1</u>

The general and fire levies will expire after 2011 and the cemetery levy will expire after 2010. It is the City's intention to request voter approval to renew the levies in the last year of collection. In the past the voters have renewed existing levies.

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 originally approved. Increases to voted levy revenues, other than bond levies, are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential and agricultural property and commercial and industrial property. Rates applied to tangible personal property are not reduced. The effective residential and agricultural rates and the effective commercial and industrial rates per \$1,000 of assessed valuation for collection years 2007, 2008, and 2009 are as follows:

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 Summary of Significant Accounting Policies and Forecast Assumptions  
 For the Years Ending December 31, 2009 through 2013

Levy Type	Full Tax Rate	Effective Rates for Collection Years					
		Residential and Agricultural			Commercial and Industrial		
		2007	2008	2009	2007	2008	2009
<b>Inside Millage</b>							
General	2.6000	2.6000	2.6000	2.6000	2.6000	2.6000	2.6000
Police Pension	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
Firemen Pension	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
<b>Outside Millage</b>							
Operating	1.0000	0.2965	0.2964	0.2673	0.6026	0.6033	0.5671
Operating	1.0000	0.5433	0.5433	0.4898	0.8030	0.8039	0.7557
Fire Operating	6.0000	5.3626	5.3623	4.8343	6.0000	6.0000	5.6405
Cemetery Operating	1.0000	0.8938	0.8937	0.8057	1.0000	1.0000	0.9401
Police Salary	1.5000	1.3406	1.3406	1.2086	1.5000	1.5000	1.4101
Floodwall	0.5000	0.3284	0.3284	0.2960	0.4555	0.4560	0.4287
<b>Total</b>	<b>14.2000</b>	<b>11.9652</b>	<b>11.9647</b>	<b>11.1017</b>	<b>13.5611</b>	<b>13.5632</b>	<b>12.9422</b>

Property taxes received in the police pension fund, firemen pension fund, and floodwall fund are not part of the forecast.

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

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

The State exempted the first \$10,000 in personal property from taxation. The State reimburses the City for the lost revenue. Beginning with tax year 2004, the State was phasing out the reimbursement by 10 percent each year. *The reimbursement is included in the tangible personal property tax revenues.*

**Real Property:** Real property taxes have increased each year. These increases are due to new construction within the City and the reappraisal which occurred in 2008. Also, the change in assessed value from the triennial update scheduled in 2011 is undetermined and, therefore, being reflected as remaining constant.

City of Noname, Ohio  
Summary of Significant Accounting Policies and Forecast Assumptions  
For the Years Ending December 31, 2009 through 2013

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**B. Intergovernmental Revenue**

Intergovernmental revenues include local government monies, local government revenue assistance, and property tax allocations for rollback and homestead and tangible personal property. The local government and local government revenue assistance funds are distributed monthly by the State to the City and by the County auditor to the City. The property tax allocations for rollbacks and homestead and tangible personal property are received from the State and are based on information provided by the county auditor.

Beginning in 2006, the State has reimbursed the City for lost revenue due to the phase out of tangible personal property tax. In the first five years, the City will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. In the next seven years, the reimbursements are phased out. The reimbursement will be made for the base year amount, except that taxing authorities are only reimbursed for inventory property assessment percentage reductions beyond those already in place before the passage of HB 66. This means the City is only reimbursed for the difference between prior law and its phase-outs and the phase-outs in HB 66.

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 City for the loss of real property taxes caused by the homestead and rollback tax relief programs. Beginning in 2006, the State eliminated the ten percent rollback on commercial and industrial real property.

The State exempts the first \$10,000 in personal property from taxation. The State reimburses the City for the lost revenue. Beginning with tax year 2004, the State has phased out the reimbursement by 10 percent each year. Under HB 66, the phase-out period has been accelerated. The last reimbursement for this exemption was in October 2008.

Section 503.12(B) of House Bill 66 established a Task Force to study potential sources of State funding for the Local Government and the Local Government Revenue Assistance programs that have the capacity for growth in funding levels and to provide stability in funding levels. In addition, the Task Force considered changes to the codified funding formula that reflects the reform to the Ohio tax code. By December 1, 2006, the Task Force submitted a report to the Governor and to the General Assembly setting forth its recommendations for sources of funding for the Local Government and the Local Government Revenue Assistance programs together with suggested legislation to implement the recommendations. The forecast assumes the continuation of the Local Government and the Local Government Revenue programs at the same amount as received in 2008.

**Note 5 – Specific Fund Revenue Assumptions**

**A. General Fund**

**Municipal Income Tax**

The City levies a municipal income tax of one percent on all income earned within the City as well as income of residents earned outside of the City. The entire amount of the tax is voter approved. Employers within the City are required to withhold the tax from their employees and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration and return annually.

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All income tax money is receipted into the General fund and used at the Council's discretion. Income tax receipts increased in 2006 due to increased collection of delinquent taxes through an amnesty program implemented by the City. Income tax receipts between 2008 and 2009 increased slightly and the City is anticipating the same growth each year throughout the forecast period. Therefore the forecasted amounts for 2009 through 2013 increase slightly each year based on anticipation of the increasing amount of taxable income within the forecast period.

Fines and Fees

Fines and fees represent revenues received from the Mayor's Court. The forecast is based on a three year average of actual revenues collected in 2006, 2007 and 2008. 2007 fines and fees increased due to the combination of the City's use of a Magistrate to oversee court, the City's Safety Traffic Enforcement Program (STEP) and the collection of delinquent fines.

Interest

The forecast expects interest receipts to remain at the 2008 level based on the City's continuing use of their interest-bearing checking account with ABC Bank. This interest-bearing checking account was established in the beginning of 2008. In prior years, City funds were placed in non-interest bearing accounts.

Licenses and Permits

Licenses and permits represent zoning permits. Zoning permits are anticipated to remain consistent with 2008 receipts and remain constant throughout the forecast.

Rentals

Rental revenue includes the rental agreement with the MNOP Company for City-owned real estate. However, the real estate rented will be sold by the City in 2009, so no rental revenue will be received after 2009.

Miscellaneous

Miscellaneous revenue in 2007 and 2008 was much higher due to the sale of timber. \$123,139 was receipted for timber sales in 2007 and \$129,033 was receipted for timer sales in 2008. The amount forecasted for 2009 includes anticipated FEMA reimbursements for projects completed by the City. No further revenue is expected to be received for the sale of timber in the forecast period.

B. Fire Levy Fund

Miscellaneous

Miscellaneous revenue for 2009 includes FEMA reimbursements for projects completed by the City.

**Note 6 – General Expenditure Assumptions – All Funds**

A. Personal Services

Personal services include the salaries and wages paid to the employees and elected officials of the City. In addition to regular salaries and wages, it includes longevity. All employees receive their compensation on a bi-weekly basis. City Council, by ordinance, sets the salary or hourly rates and other forms of

City of Noname, Ohio  
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compensation, such as longevity, for the elected officials and employees, including bargaining unit employees. The mayor, fiscal officer, magistrate, and Solicitor are classified as part-time employees.

The American Federation of State, County, and Municipal Employees represent four employees, one full-time employee in the Fiscal Officer's department and three full-time employees in the street department. The agreement expired March 1, 2009. Negotiations are currently in progress. The City anticipates a three percent annual raise for all union employees.

The Mayor's office includes a full-time secretary and a Mayor's Court magistrate. The Mayor and Magistrate's annual salary are \$12,000 and \$6,000, respectively, and no increase is anticipated during the forecast period.

The City Council includes six members. Each council member receives an annual salary of \$2,400. No increase is anticipated during the forecast period.

The City Administrator receives an annual salary of \$7,500 for 2009. The salary has been increased to \$10,000 for 2010 and thereafter.

The Legal department includes a solicitor. The solicitor receives an annual salary of \$17,000, which is expected to remain constant throughout the forecast period.

The Fiscal Officer's department includes one full-time employee. The fiscal officer's compensation is \$17,000 in 2009 and will be \$24,000 in 2010 and thereafter.

The City employs a zoning officer with an annual salary of \$3,000. This amount is anticipated to remain the same throughout the forecast period.

The Income Tax department employed an income tax clerk prior to 2009. In 2009, the City contracted with Regional Income Tax Authority (RITA) for the administration and collection of the income tax and terminated the position.

The Police Department is staffed by a full-time chief, five full-time police officers, and eleven part-time police officers. All police wages are charged to the general fund and police salary levy fund, except one officer that is charged to the Somewhere Metropolitan Housing Authority fund. The Chief's compensation is \$14.52 per hour. The hourly rates for full-time police officers range from \$8.65 to \$12.86. All part-time police officers are paid \$8.00 per hour.

The Fire Department is staffed by a full-time chief, two full-time firefighters, and twenty-nine part-time firefighters. The Chief's compensation is \$12.34 per hour and the full-time firefighters are compensated at an hourly rate of \$8.65 to \$10.80. All part-time firefighters are paid \$8.00 per hour.

The salaries and wages for all employees are anticipated to increase each year due to longevity increases and an annual increase of no more than three percent.

Longevity is earned in one percent increments each year. It is capped at 10 percent for all employees, with the exception of a few employees who had previously earned over 10 percent. These employees were capped at their current rate when the cap took effect.

City of Noname, Ohio  
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**B. Fringe Benefits**

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

The City provides medical, dental, vision, and life insurance benefits to its full-time employees through Anthem Blue Cross and Blue Shield. The City anticipates the premiums for benefits to increase approximately 15 percent each year based on industry trends. The City charges the premiums for medical benefits to the same fund and department as the individual's compensation.

All full-time employees, other than police and firefighters participate in the Ohio Public Employees Retirement System (OPERS). OPERS provides basic retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. Employees are required to contribute 10.0 percent of their annual-covered wages and the City is required to contribute 14.00 percent of annual-covered wages beginning in 2008. This is anticipated to remain the same during the forecast period.

All full-time police and firefighters contribute to the Ohio Police and Fire Pension Fund (OP&F). OP&F provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. Police and firefighters are required to contribute 10 percent of their annual-covered wages and the City is required to contribute 19.5 percent for police and 24 percent for firefighters of the annual-covered wages. The general fund carries the majority of the expense for police benefits, but the Somewhere Metropolitan Housing Authority fund pays for the benefits of one police officer. The general fund does not pay any benefits for firefighters. These benefits are paid out of the fire levy fund.

Severance will be paid out for the retiring street employees in 2009 from the street construction, maintenance and repair fund.

The City participates in a group rating pool for workers' compensation. By participating in this pool, the City is able to receive a discount on their worker's compensation premium.

**Note 7 – Specific Fund Expenditure Assumptions**

**A. General Fund**

**Contractual Services**

Contractual services consist of utilities, liability insurance, and computer and equipment maintenance costs for the City. Contractual services expenditures are anticipated to remain constant with 2008 throughout the forecast period.

**Materials and Supplies**

Materials and supplies expenditures include office supplies, building supplies and postage. Materials and supplies are anticipated to decrease based on the City centralizing the majority of materials and supplies expenditures through the Administrator's office.

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Capital Outlay

Capital outlay expenditures include equipment, software, and computers. Two computers were purchased in 2009. The Mayor's office also purchased new computer software. Two police cruisers and a lawn mower were also purchased in 2009. The police department is anticipating annual expenditures of approximately \$6,000 which is consistent with previous years. No other capital outlay expenditures are expected from the general fund in the forecasted period.

Miscellaneous

Other expenditures include various miscellaneous items which are being kept to a minimum. In 2008, miscellaneous expenditures consisted primarily of grant repayment required because the City had not spent the grant money in accordance with the grant agreement.

Transfers Out

Transfers out in prior years included annual operating subsidies and resources used to eliminate the deficits in other funds. They also included municipal income tax revenue that is transferred to the capital improvement fund. These transfers began in 2005 and amounted to \$130,000 annually. However, the City is forecasting stopping these transfers in 2009 and continue throughout the forecast period. The City does not anticipate the use of any other transfers in the forecasted years.

B. Fire Levy Fund

Contractual Services

Contractual Services are anticipated to remain similar to the actual 2008 amount.

Material and Supplies

Material and supplies expenditures include gasoline and various supplies and are estimated to remain fairly consistent with previous year actual expenditures.

Miscellaneous

Miscellaneous expenditures have been kept to a minimum and are anticipated to stay at that minimum throughout the forecast period.

C. Police Salary Levy Fund

Miscellaneous

Miscellaneous expenditures have been kept to a minimum and are anticipated to stay at a minimal level throughout the forecast period.