



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lordstown Local School District

Trumbull County

Financial Forecast

For The Fiscal Year Ending June 30, 2002

Lordstown Local School District
Trumbull County

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Ohio Department of Education
25 South Front Street
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and

Board of Education
Lordstown Local School District
1824 Salt Springs Road
Warren, Ohio 44481

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Division of the Auditor of State's Office has examined the financial forecast of the general fund of the Lordstown Local School District, Trumbull County, Ohio. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2002 of \$142,000 after meeting the statutory cash reserves of \$126,000. The cash reserves consist of \$48,000 for the textbooks and instructional materials reserve, \$38,000 for the budget reserve and \$40,000 for bus purchase allowance.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2003 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating surplus could be enhanced to the extent tax advances are received prior to June 30, 2002 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2002.

A handwritten signature in black ink, appearing to read "Christine L. Hansen".

Christine L. Hansen, CPA
Chief of Local Government Services

May 23, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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Board of Education
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Independent Accountant's Report

We have examined the accompanying forecasted schedules of revenues, expenditures and changes in fund balance of the general fund of the Lordstown Local School District for the fiscal year ending June 30, 2002. The Lordstown Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

The historical financial statements for the years ended June 30, 1999, 2000 and 2001 were audited by the Auditor of State's Office and we rendered qualified opinions on those financial statements in reports dated September 30, 1999, March 19, 2001 and December 20, 2001; however, the report for fiscal year 2001 included a going concern issue. We have not performed any auditing procedures since.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

February 21, 2002

LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 THROUGH 2001 ACTUAL;
FOR THE FISCAL YEAR ENDING JUNE 30, 2002 FORECASTED
GENERAL FUND

| | Fiscal Year <u>1999 Actual</u> | Fiscal Year <u>2000 Actual</u> | Fiscal Year <u>2001 Actual</u> | Fiscal Year <u>2002 Forecasted</u> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|
| Revenues | | | | |
| General Property Tax (Real Estate) | \$2,529,000 | \$2,637,000 | \$2,577,000 | \$2,843,000 |
| Tangible Personal Property Tax | 1,560,000 | 1,466,000 | 1,589,000 | 1,198,000 |
| Income Tax | 0 | 0 | 368,000 | 481,000 |
| Unrestricted Grants-in-Aid | 1,139,000 | 2,051,000 | 1,163,000 | 1,292,000 |
| Restricted Grants-in-Aid | 10,000 | 14,000 | 14,000 | 14,000 |
| Property Tax Allocation | 234,000 | 241,000 | 248,000 | 253,000 |
| All Other Revenues | 1,054,000 | 1,402,000 | 1,696,000 | 1,638,000 |
| <i>Total Revenues</i> | <u>6,526,000</u> | <u>7,811,000</u> | <u>7,655,000</u> | <u>7,719,000</u> |
| Other Financing Sources | | | | |
| Proceeds from Sale of Notes | 0 | 0 | 800,000 | 0 |
| Solvency Assistance Advance | 0 | 0 | 1,357,000 | 0 |
| Advances In | 19,000 | 47,000 | 86,000 | 66,000 |
| <i>Total Other Financing Sources</i> | <u>19,000</u> | <u>47,000</u> | <u>2,243,000</u> | <u>66,000</u> |
| <i>Total Revenues and Other Financing Sources</i> | <u>6,545,000</u> | <u>7,858,000</u> | <u>9,898,000</u> | <u>7,785,000</u> |
| Expenditures | | | | |
| Personal Services | 4,086,000 | 4,462,000 | 4,123,000 | 4,056,000 |
| Employees' Retirement/Insurance Benefits | 1,580,000 | 1,890,000 | 2,029,000 | 1,789,000 |
| Purchased Services | 1,090,000 | 770,000 | 965,000 | 720,000 |
| Supplies and Materials | 255,000 | 248,000 | 203,000 | 237,000 |
| Capital Outlay | 0 | 58,000 | 53,000 | 58,000 |
| Debt Service: | | | | |
| Principal-Notes | 0 | 0 | 800,000 | 0 |
| Principal-HB 264 Loans | 0 | 0 | 112,000 | 112,000 |
| Solvency Assistance Advance | 0 | 0 | 0 | 679,000 |
| Interest and Fiscal Charges | 0 | 0 | 104,000 | 87,000 |
| Other Objects | 310,000 | 336,000 | 1,055,000 | 282,000 |
| <i>Total Expenditures</i> | <u>7,321,000</u> | <u>7,764,000</u> | <u>9,444,000</u> | <u>8,020,000</u> |
| Other Financing Uses | | | | |
| Operating Transfers Out | 153,000 | 56,000 | 73,000 | 30,000 |
| Advances Out | 46,000 | 54,000 | 66,000 | 50,000 |
| <i>Total Other Financing Uses</i> | <u>199,000</u> | <u>110,000</u> | <u>139,000</u> | <u>80,000</u> |
| <i>Total Expenditures and Other Financing Uses</i> | <u>7,520,000</u> | <u>7,874,000</u> | <u>9,583,000</u> | <u>8,100,000</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | (975,000) | (16,000) | 315,000 | (315,000) |
| Cash Balance July 1, 2001 | <u>1,279,000</u> | <u>304,000</u> | <u>288,000</u> | <u>603,000</u> |
| Cash Balance June 30, 2002 | 304,000 | 288,000 | 603,000 | 288,000 |
| Less: Encumbrances and Reserves: | | | | |
| Actual/Estimated Encumbrances June 30 | 12,000 | 25,000 | 153,000 | 20,000 |
| Reservations of Fund Balance | | | | |
| Textbooks and Instructional Materials | 0 | 19,000 | 80,000 | 48,000 |
| Budget Reserve | 38,000 | 38,000 | 38,000 | 38,000 |
| Bus Purchase | 0 | 20,000 | 30,000 | 40,000 |
| Total Reservations of Fund Balance | <u>38,000</u> | <u>77,000</u> | <u>148,000</u> | <u>126,000</u> |
| Unencumbered/Unreserved Fund Balance June 30 | <u>\$254,000</u> | <u>\$186,000</u> | <u>\$302,000</u> | <u>\$142,000</u> |

See accompanying summary of significant forecast assumptions and accounting policies

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the Lordstown Local School District Board of Education and the Financial Planning and Supervision Commission'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 February 21, 2002, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

The accompanying forecast was prepared for the purpose of determining whether the Lordstown Local School District will incur an operating deficit for the current fiscal year under Section 3316.08 of the Ohio Revised Code and should not be used for any other purpose.

Note 2 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund.

For presentation in the forecast, the general fund has been adjusted to include the financial activity and balances of the emergency levy, vocational compact, disadvantaged pupil impact aid (DPIA) and textbook subsidy funds, and the activity of the debt service fund related to the general fund supported debt. The inclusion of this activity has generated differences from the audited financial statements for the fiscal years ended June 30, 1999, 2000, and 2001. These differences are as follows:

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

| | Fiscal Year Cash Basis 1999 | Fiscal Year Cash Basis 2000 | Fiscal Year Cash Basis 2001 |
|--|--------------------------------|--------------------------------|--------------------------------|
| <u>Revenues and Other Sources</u> | | | |
| General Fund as Previously Reported | \$4,493,000 | \$6,124,000 | \$6,818,000 |
| Vocational Compact | 2,052,000 | 1,730,000 | 2,060,000 |
| DPIA | 0 | 4,000 | 4,000 |
| Debt Service Activity Related to | | | |
| General Fund Supported Debt | 0 | 0 | 1,016,000 |
| Total Revenues and Other Sources per Forecast | <u>6,545,000</u> | <u>7,858,000</u> | <u>9,898,000</u> |
| <u>Expenditures and Other Uses</u> | | | |
| General Fund as Previously Reported | 5,454,000 | 5,901,000 | 6,676,000 |
| Vocational Compact | 2,069,000 | 1,994,000 | 2,040,000 |
| DPIA | 0 | 4,000 | 4,000 |
| Textbook Subsidy | 9,000 | 0 | 0 |
| Debt Service Activity Related to | | | |
| General Fund Supported Debt | 0 | 0 | 1,016,000 |
| Less Encumbrances | (12,000) | (25,000) | (153,000) |
| Total Expenditures and Other Uses per Forecast | <u>7,520,000</u> | <u>7,874,000</u> | <u>9,583,000</u> |
| Excess of Revenues and Other Sources Over(Under) Expenditures and Other Uses | (975,000) | (16,000) | 315,000 |
| Cash Fund Balance at Beginning of Fiscal Year | <u>1,279,000</u> | <u>304,000</u> | <u>288,000</u> |
| Cash Fund Balance at End of Fiscal Year | 304,000 | 288,000 | 603,000 |
| Encumbrances at Fiscal Year End | (12,000) | (25,000) | (153,000) |
| Unencumbered Fund Balance at Fiscal Year End | <u>\$292,000</u> | <u>\$263,000</u> | <u>\$450,000</u> |

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

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2002

B. - Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

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

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

Debt Service 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 Fund

Enterprise Funds - Enterprise funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds

Trust and Agency Funds - Trust and agency funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) non-expendable trust funds, and (c) agency funds.

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations 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

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

appropriated. The primary level of budgetary control is at the function level within each fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

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

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

Note 4 - General Operating Assumptions

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

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real estate, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Trumbull County Auditor as the tax is collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

State law allows for certain reductions in the form of rollbacks and homestead exemption for real estate taxes and exempts from taxation the first \$10,000 of tangible personal property. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is included in the forecasted amount for property tax allocation.

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the year are recorded as revenue in next fiscal year. New and /or expiring levies result in one-half of the

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

annual revenue being recorded in the first and/or last year of collection. On November 6, 2001, the School District passed a 6.25 mill, five-year emergency levy which will generate approximately \$776,000 annually.

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

| <u>Tax Levies</u> | <u>Year Approved</u> | <u>Last Year of Collection</u> | <u>Full Tax Rate (Mills)</u> |
|----------------------------|----------------------|--------------------------------|------------------------------|
| Inside Ten Mill Limitation | n/a | n/a | \$6.90 |
| Continuing Operating | Prior to 1976 | n/a | 14.80 |
| Continuing Operating | 1991 | n/a | 9.50 |
| Current Operating | 2000 | 2006 | 6.85 |
| Current Operating | 2001 | 2006 | 6.25 |
| Total Tax Rate | | | <u>\$44.30</u> |

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represents gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Trumbull County Auditor. Based upon these estimates, the School District anticipates receiving \$2,843,000 in real estate tax revenue, an increase of \$266,000 from the prior fiscal year. This increase is due to the collection of a new five-year emergency operating levy.

The School District has assumed in the forecast that they will not be materially affected by Senate Bill 3, as amended by Senate Bill 287, with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). The Ohio Department of Taxation estimated for fiscal year 2002 a decline of approximately \$79,000 in property tax revenue. The School District will be reimbursed the full amount of the loss which is recorded under unrestricted grants-in-aid revenue.

Tangible Personal Property Tax - Tangible personal property tax revenues are generated from the property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues are based upon information provided by the Trumbull County Auditor. Based upon these estimates, the School District anticipates receiving \$1,198,000 in tangible personal property tax revenue, a \$391,000 decrease from the previous fiscal year. This is due to decreased taxable personal property, a decrease in assessed valuation and the reduction in the assessed valuation of the inventory component of personal property tax by one percent each year over the next twenty-five years.

B. - Income Tax

On November 7, 2000, the voters approved an agreement, between the Village of Lordstown and the Lordstown Local School District, to share 30 percent of the existing .5 percent Village income tax levy. The tax is levied on the income of the residents of the Village of Lordstown and non-residents working in the Village of Lordstown. The agreement required the Village to pay to the School District 30 percent of the tax collected in the calendar year 2001 and allowed the School District to use the revenues for general operating expenses and capital improvements.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

C. - Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section. Unrestricted grants-in-aid includes a basic aid guarantee, special education aid, training and experience of classroom teachers funding, unrestricted disadvantaged pupil impact aid, gifted aid, transportation, and vocational education.

In 1998, State law set the base cost per pupil at \$4,063 and increased the rate each year thereafter to \$4,177 for fiscal year 2000, \$4,294 for fiscal year 2001, and \$4,814 for fiscal year 2002.

The anticipated revenue for fiscal year 2002 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$1,292,000, which represents a \$129,000 increase from the prior fiscal year. This increase is primarily due to increases in special and vocational education.

Beginning in tax year 2001, there will be significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes will be used to reimburse school districts for property tax revenue loss. Reimbursements are to be made twice a year starting in February, 2002. The School District is anticipating \$79,000 in public utility reimbursements in fiscal year 2002, which is based on information provided by the Ohio Department of Taxation.

D. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of an anticipated bus purchase allowance of \$10,000 and a DPIA subsidy of \$4,000.

E. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the above (rollback and homestead). Property tax allocation revenue, based on information provided by the Trumbull County Auditor, is anticipated to be \$253,000, an increase of \$5,000 over the prior fiscal year.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

F. - All Other Revenues

All other revenues consist of the following:

| Revenue Sources | Actual Fiscal Year 2001 | Forecast Fiscal Year 2002 | Variance Increase (Decrease) |
|-----------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Tuition | \$1,246,000 | \$1,327,000 | \$81,000 |
| Interest on Investments | 44,000 | 40,000 | (4,000) |
| Payment in Lieu of Taxes | 147,000 | 120,000 | (27,000) |
| Rentals | 4,000 | 30,000 | 26,000 |
| Miscellaneous | 53,000 | 70,000 | 17,000 |
| Refund of Prior Year Expenditures | 202,000 | 51,000 | (151,000) |
| Totals | \$1,696,000 | \$1,638,000 | (\$58,000) |

The forecasted revenue was based on the following:

- Tuition is expected to increase based on an agreed tuition rate by the vocational compact and an increase in salaries and benefits for the teachers due to the salary increase. Tuition consists of monies from school foundation and tuition charged to four other school districts which participate in the Lordstown vocational compact. The amount charged to other districts is determined by a formula specified in the compact agreement.
- Investment earnings are expected to decrease based on available cash for investment and the current interest rates.
- During fiscal year 1996, General Motors and the Lordstown Local School District agreed to a settlement which would ensure that Lordstown Local School District would receive at least forty percent of the personal property tax that would otherwise be authorized to levy on tangible personal property tax covered under certain programs pursuant to Ohio Revised Code Section 5705.01 to 5705.47. During fiscal year 2000, the Board of Education passed a resolution to have the General Motors monies placed in the general fund instead of the capital projects fund.
- Miscellaneous revenues consist of donations, transportation costs to events, book fines and other miscellaneous items.
- Refund of Prior Year Expenditures is expected to decrease due to the School District coding its entries in a more exact manner.

G. – Other Financing Sources

Proceeds from Sale of Notes – During fiscal year 2001, the School District issued \$800,000 in tax anticipation notes at an interest rate of 6.27 percent. The notes were repaid on November 1, 2000. The School District does not anticipate issuing any notes during the forecast period.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

Solvency Assistance Advance – During fiscal year 2001, the School District received \$1,357,000 as a solvency assistance advance from the State. The advance will be repaid over a two year period from monthly deductions from state foundation revenue, with the final payment in June, 2003.

Advances In - Advances in represents amounts loaned to other funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year. The general fund is expected to receive \$66,000.

Note 6 - Significant Assumptions For Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, supplemental contracts, substitutes, severance pay, and board members' compensation. All employees receive their compensation on a bi-weekly basis.

During fiscal year 2000, personal services costs increased significantly due to the School District paying judgment costs to a former principal and treasurer in the amount of \$201,385 in addition to base and step increases to its employees. During fiscal year 2001, personal services costs decreased due to the School District only giving step increases.

Certified (teacher) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. The contract covers the period of August 1, 2000 to July 31, 2003, and allows for a three percent increase for fiscal year 2002. Classified staff salaries are also based on a negotiated contract which includes base and step increases. The contract covers the period September 1, 2000 to August 31, 2003, and allows for a three percent increase for fiscal year 2002. Although salaries increased, the increase is offset by a reduction in staff of 4.5 classified employees. Administrative salaries are set by the Board of Education.

The School District offers severance pay to its certified employees with five years of service. Payment is thirty percent of their unused sick leave up to a maximum of thirty days. Certified employees with ten to nineteen years of service, receive an additional one-seventh of their unused sick balance up to twenty-eight days, for a total maximum of fifty-eight severance days. Certified employees with twenty or more years of service receive an additional one-seventh of their unused sick balance up to forty days, for a total maximum of seventy severance days.

Classified employees with five years of service receive a payment of thirty percent of their unused sick leave up to a maximum of thirty days. Classified employees with ten to nineteen years of service, receive an additional one-seventh of severance days of their unused sick leave balance up to twenty-five days, for a total maximum of fifty-five severance days. Classified employees with greater than twenty years of service receive an additional one-seventh of their unused sick leave balance up to thirty-five days, for a total maximum of sixty-five severance days. Severance costs are anticipated to decrease due to less people expected to retire during fiscal year 2002.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

Presented below is a comparison of salaries and wages for the fiscal year 2001 and the forecast period.

| | Actual Fiscal Year 2001 | Forecast Fiscal Year 2002 | Variance Increase (Decrease) |
|--------------------------|-------------------------------|---------------------------------|------------------------------------|
| Certified Salaries | \$3,116,000 | \$3,209,000 | \$93,000 |
| Classified Salaries | 656,000 | 608,000 | (48,000) |
| Substitute Salaries | 101,000 | 55,000 | (46,000) |
| Supplemental Contracts | 130,000 | 124,000 | (6,000) |
| Severance Pay | 74,000 | 11,000 | (63,000) |
| Other Salaries and Wages | 46,000 | 49,000 | 3,000 |
| Totals | <u>\$4,123,000</u> | <u>\$4,056,000</u> | <u>(\$67,000)</u> |

B. - Employees' Retirement/Insurance Benefits

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

Retirement costs are based on the employers' contribution rate of fourteen percent for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next fiscal year. Retirement costs are forecast to increase primarily due to a three percent increase in salaries.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program and the monthly premiums. The School District participates in a traditional health plan and pays 100 percent of the premiums. The School District is anticipating a decrease of fifteen percent due to a negotiated rate change and a change in coverage, effective April 2001, as well as fewer employees covered under health insurance in fiscal year 2002.

Life insurance premiums are based on the coverage amount, the anticipated number of employees participating in the program and the monthly premiums.

Workers' compensation premiums are based on the School District's rate and the anticipated salaries for the fiscal year and medicare benefits are based on the employers' rate of 1.45 percent and the payroll costs for contributing staff.

The School District offered a three-year Early Retirement Incentive Plan (ERIP) for its certified employees for calendar years 1998, 1999 and 2000, the term of its last contract. In the first year, the plan was available to the greater of nine individuals or five percent of all eligible certified staff. In the second and third years, the plan was available to the greater of six individuals or five percent of all eligible staff. The ERIP was in effect for the duration of the last contract. ERIP benefits are forecasted at \$111,000 for fiscal year 2002, a \$146,000 decrease from fiscal year 2001. Fiscal year 2002 amounts are based on actual payments to the retirement system.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

Presented below is a comparison of fiscal year 2001 and the forecast period:

| | Fiscal Year 2001 | Fiscal Year 2002 | Increase (Decrease) |
|----------------------------|---------------------|---------------------|------------------------|
| Employer's Retirement | \$603,000 | \$672,000 | \$69,000 |
| Health Care/Life Insurance | 1,081,000 | 909,000 | (172,000) |
| Workers' Compensation | 41,000 | 41,000 | 0 |
| Medicare | 38,000 | 38,000 | 0 |
| Unemployment | 0 | 9,000 | 9,000 |
| Tuition Reimbursement | 9,000 | 9,000 | 0 |
| Early Retirement Incentive | 257,000 | 111,000 | (146,000) |
| Totals | <u>\$2,029,000</u> | <u>\$1,789,000</u> | <u>(\$240,000)</u> |

C. - Purchased Services

Purchased service expenditures forecasted in the amount of \$720,000 are comprised of the following:

| | Actual Fiscal Year 2001 | Forecast Fiscal Year 2002 | Variance Increase (Decrease) |
|-------------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Professional and Technical Services | \$107,000 | \$104,000 | (\$3,000) |
| Property Services | 106,000 | 24,000 | (82,000) |
| Travel and Meeting Expenses | 27,000 | 15,000 | (12,000) |
| Communication Costs | 40,000 | 39,000 | (1,000) |
| Utility Services | 447,000 | 363,000 | (84,000) |
| Trade Services | 18,000 | 5,000 | (13,000) |
| Tuition Payments | 164,000 | 120,000 | (44,000) |
| Pupil Transportation | 56,000 | 50,000 | (6,000) |
| Totals | <u>\$965,000</u> | <u>\$720,000</u> | <u>(\$245,000)</u> |

The School District is anticipating a \$245,000 decrease in purchased services for fiscal year 2002. This decrease is due primarily to a decrease in property services, utilities services and trade services. The decrease is due to cost-cutting measures instituted by the School District. Also, utility usage is down due to mild weather thus far this winter.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

D. - Supplies and Materials

Supplies and materials are comprised of the following:

| | Actual Fiscal Year 2001 | Forecast Fiscal Year 2002 | Variance Increase (Decrease) |
|---|-------------------------------|---------------------------------|------------------------------------|
| General Supplies, Library Books and Periodicals | \$117,000 | \$115,000 | (\$2,000) |
| Operations, Maintenance and Repair | 56,000 | 110,000 | 54,000 |
| Textbooks | 30,000 | 12,000 | (18,000) |
| Totals | <u>\$203,000</u> | <u>\$237,000</u> | <u>\$34,000</u> |

The School District is forecasting a \$34,000 increase in materials and supplies for the forecast period due to additional materials and supplies needed for the operation and maintenance of the School District.

E. - Capital Outlay

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

Capital outlay expenditures are forecasted in the amount of \$58,000 which includes \$57,000 for new capital outlay and \$1,000 of replacement capital outlay. The majority of the planned expenditures are for purchases of new computer hardware and software to equip an additional classroom at the Gordon D. James Career Center.

F. - Debt Service

General fund supported debt consists of a Solvency Assistance advance and two House Bill 264 loans. The forecasted changes in the general fund obligations are as follows:

| | Interest Rate | Balance 6/30/2001 | Issued | Retired | Balance 6/30/2002 |
|----------------------------------|------------------|----------------------|------------|------------------|----------------------|
| Solvency Assistance Advance 2001 | 0.00% | \$1,357,000 | \$0 | \$679,000 | \$678,000 |
| House Bill 264 Loan FY 2000 | 5.99% | 449,000 | 0 | 19,000 | 430,000 |
| House Bill 264 Loan FY 2000 | 4.69% | 1,376,000 | 0 | 93,000 | 1,283,000 |
| Total | | <u>\$3,182,000</u> | <u>\$0</u> | <u>\$791,000</u> | <u>\$2,391,000</u> |

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

G. - Other Objects

Other objects are comprised of the following:

| | Actual Fiscal Year 2001 | Forecast Fiscal Year 2002 | Variance Increase (Decrease) |
|------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Dues and Fees | \$241,000 | \$278,000 | \$37,000 |
| Insurance | 3,000 | 3,000 | 0 |
| Judgments | 5,000 | 0 | (5,000) |
| Taxes and Assessments | 1,000 | 1,000 | 0 |
| Refund of Prior Year Receipt | 805,000 | 0 | (805,000) |
| Totals | <u>\$1,055,000</u> | <u>\$282,000</u> | <u>(\$773,000)</u> |

The School District returned \$805,000 to the Ohio Department of Education during fiscal year 2001. The amount represents school foundation monies erroneously sent to the School District in fiscal year 2000.

H. - Operating Transfers and Advances Out

The School District expects to make a transfer from the general fund in the amount of \$30,000 during fiscal year 2002 for its food service and uniform school supplies operations. The advance out during fiscal year 2002 represents the advance repayment in the amount of \$50,000 that was made to other funds during fiscal year 2001.

Note 7 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2001 were \$153,000 and are forecasted at \$20,000 for June 30, 2002. The State Teachers' Retirement Advance is excluded, due to a change in the reporting requirements of the State Teachers' Retirement System, which no longer requires the advance to be encumbered.

Note 8 - Reservations of Fund Balance

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

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

A. - Textbooks and Instructional Materials

The set aside requirement for fiscal year 2002 is \$90,000. There was a carryover of \$80,000 from fiscal year 2001. The School District anticipates \$122,000 in qualifying expenditures in fiscal year 2002, leaving a reserve balance of \$48,000.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2002 is \$90,000. The School District will have \$230,000 in offsets and \$58,000 in qualifying disbursements during the current fiscal year; therefore, no reserve for capital acquisition and improvements is forecasted.

C. - Budget Reserve

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish and appropriate money for budget stabilization. The monies on hand in the School District's budget reserve may, at the discretion of the Board, be returned to the School District's general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve set aside. The School District does not anticipate expending the existing balance in the budget reserve during the forecast period.

D. - Bus Purchases

At June 30, 2001 the School District had \$30,000 in unspent bus monies. In addition, the School District received \$10,000 in bus purchase allowance during fiscal year 2002. The School District does not anticipate purchasing any school buses during the forecast year. Therefore, a balance of \$40,000 is reserved.

E. - Disadvantaged Pupil Impact Aid (DPIA)

The School District anticipates receiving \$4,000 in restricted DPIA monies during fiscal year 2002. The School District also anticipates spending the entire amount. Therefore, there is no reserve included for DPIA.

Note 9 - Vocational Compact

The Vocational Compact, located in the Gordon D. James Career Center, was established to provide vocational programs for students among the following five school districts: Howland, Lordstown, McDonald, Niles and Weathersfield. The Boards of the participating school districts entered into a five-year agreement for the period July 1, 1997 through June 30, 2002. The agreement is renewable on a five-year period, subject to any Board to elect not to be a member during any such renewal period. The Vocational Compact is supported by each school district on a tuition cost basis and State reimbursements to the Lordstown Local School District. The Lordstown Local School District serves as the fiscal agent. The agreement with the participating school districts will be terminated at the end of fiscal year 2002. This termination will have no effect on the forecast for the year ending June 30, 2002. Management is currently evaluating the effect the termination of the Vocational Compact will have on future operations of the School District.

Lordstown Local School District

Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2002

Note 10 - Levies

The School District passed a levy on the November 6, 2001 ballot. No other levies are expected to be placed on the ballot during the remainder of fiscal year 2002. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

| <u>Date</u> | <u>Type</u> | <u>Amount</u> | <u>Term</u> | <u>Election Results</u> |
|----------------|-------------------|-----------------------------|-------------|-------------------------|
| November, 1990 | Operating | 9.5 mills | Continuing | Failed |
| February, 1991 | Operating | 9.5 mills | Continuing | Passed |
| November, 1991 | Emergency Renewal | 6.53 mills | 5 Years | Passed |
| November, 1996 | Emergency Renewal | 7.112 mills | 5 Years | Passed |
| November, 2000 | Emergency Renewal | 6.85 mills | 5 Years | Passed |
| November, 2000 | Shared Income Tax | 30 Percent of Income Tax | 1 Year | Passed |
| November, 2001 | New Emergency | 6.25 mills | 5 Years | Passed |

Note 11 - Pending Litigation

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

Note 12 - State School Funding Decision

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006. The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 21, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

As of February 21, 2002, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial statements.



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LORDSTOWN LOCAL SCHOOL DISTRICT

TRUMBULL 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
MAY 24, 2002**