



**Auditor of State
Betty Montgomery**

**Southern Local School District
Meigs County, Ohio**

**Financial Forecast
For the Fiscal Years Ending June 30, 2003
through June 30, 2007**

Local Government Services Division

Southern Local School District
Meigs County

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**Auditor of State
Betty Montgomery**

Financial Planning and Supervision Commission
Ohio Department of Education
615 West Superior, Room 545
Cleveland, Ohio 44113-1801

and

Board of Education
Southern Local School District
P.O. Box 176
Racine, Ohio 45771

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 Southern Local School District, Meigs County, Ohio. This forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit, after consuming a budget reserve of \$37,000, of \$665,000 for the fiscal year ending June 30, 2003.

Governor Bob Taft has proposed an across the board reduction in state aid to school districts of 2.5 percent to take affect during the remainder of the fiscal year. Should this cut take place, Southern Local School District would lose approximately \$84,000 which would further increase the deficit.

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 District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2003.

Each School District receiving certification of an operating deficit under 3316.08, Revised Code, is required to place a tax levy on the ballot. The forecasted tax revenues exclude any revenue that might be generated from this tax since the levy has not yet been approved by the voters within the School District.

Peter R. Sorem
Chief of Local Government Services

March 6, 2003

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**Auditor of State
Betty Montgomery**

Board of Education
Southern Local School District
P. O. Box 176
Racine, Ohio 45771

Independent Accountant's Report

We have examined the accompanying forecasted schedule of revenues, expenditures and changes in fund balance of the general fund of the Southern Local School District for the fiscal years ending June 30, 2003 through June 30, 2007. The Southern 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 schedule 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 its date.

The accompanying financial forecast has been prepared assuming the Southern Local School District will continue as a going concern. The School District has experienced recurring general fund operating deficiencies, decreases in the unencumbered fund balance, and has borrowed against future revenues to finance its operations. In addition, the School District was declared in Fiscal Emergency status (see Note 12) on November 8, 1999, has obtained a solvency advances to finance fiscal years 2000, 2001, and 2002 operations, and has not requested voter approval for additional general fund operating levies. The financial forecast does not include any adjustments that might result from the outcome of this uncertainty.

The historical financial statements for the fiscal year ended June 30, 2000 were audited by the Auditor of State's Office and we rendered a qualified opinion on those financial statements in the report dated October 4, 2000 due to both the failure to report textbook and capital reserves and questions regarding the accuracy of the appropriations reported on the combined statements when compared with the expenditure authority. The historical financial statements for the fiscal years ended June 30, 2001 and June 30, 2002 were audited by the Auditor of State's Office and we rendered an unqualified opinion on those financial statements in reports dated September 6, 2001 and October 29, 2002. The audit opinions on the historical financial statements for the years ended June 30, 2000, June 30, 2001, and June 30, 2002 included an explanatory paragraph for going concern. We have not performed any auditing procedures since.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 16, 2003

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Southern Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2000, 2001 and 2002 Actual;
Fiscal Years Ending June 30, 2003 through June 30, 2007 Forecasted
General Fund

	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Forecasted
Revenues				
General Property Tax (Real Estate)	\$1,438,000	\$1,410,000	\$1,302,000	\$1,239,000
Tangible Personal Property Tax	48,000	58,000	83,000	90,000
Unrestricted Grants-in-Aid	2,322,000	2,402,000	2,955,000	2,980,000
Restricted Grants-in-Aid	254,000	297,000	551,000	582,000
Property Tax Allocation	117,000	121,000	125,000	132,000
All Other Revenues	37,000	86,000	92,000	93,000
Total Revenues	4,216,000	4,374,000	5,108,000	5,116,000
Other Financing Sources				
Solvency Assistance Advance	627,000	766,000	421,000	0
Advances In	0	0	11,000	0
Total Other Financing Sources	627,000	766,000	432,000	0
Total Revenues and Other Financing Sources	4,843,000	5,140,000	5,540,000	5,116,000
Expenditures				
Personal Services	2,552,000	2,500,000	2,736,000	2,744,000
Employees' Retirement/Insurance Benefits	995,000	1,058,000	1,256,000	1,583,000
Purchased Services	194,000	264,000	292,000	278,000
Supplies and Materials	135,000	188,000	213,000	166,000
Capital Outlay	192,000	105,000	224,000	126,000
Debt Service:				
Principal - Asbestos Loan	12,000	12,000	12,000	12,000
Principal - Solvency Assistance Advance	0	314,000	696,000	594,000
Principal - HB 264 Energy Conservation Note	40,000	45,000	45,000	50,000
Interest and Fiscal Charges	16,000	14,000	12,000	9,000
Other Objects	413,000	340,000	224,000	466,000
Total Expenditures	4,549,000	4,840,000	5,710,000	6,028,000
Other Financing Uses				
Operating Transfers Out	0	0	20,000	20,000
Advances Out	114,000	11,000	0	0
Total Other Financing Uses	114,000	11,000	20,000	20,000
Total Expenditures and Other Financing Uses	4,663,000	4,851,000	5,730,000	6,048,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	180,000	289,000	(190,000)	(932,000)
Cash Balance July 1	9,000	189,000	478,000	288,000
Cash Balance June 30	189,000	478,000	288,000	(644,000)
Less Encumbrances and Reserves:				
Estimated Encumbrances June 30	0	15,000	21,000	21,000
Reservations of Fund Balance				
Budget Reserve	25,000	25,000	37,000	0
Total Encumbrances and Reservations of Fund Balance	25,000	40,000	58,000	21,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	164,000	438,000	230,000	(665,000)
Cumulative Revenue from Replacement/Renewal Levies				
Property Tax - Renewal or Replacement	0	0	0	0
Fund Balance (Deficit) after Replacement/Renewal Levy	\$164,000	\$438,000	\$230,000	(\$665,000)

See accompanying summary of significant forecast assumptions, accounting policies, and accountant's report.

Fiscal Year 2004 Forecasted	Fiscal Year 2005 Forecasted	Fiscal Year 2006 Forecasted	Fiscal Year 2007 Forecasted
\$1,168,000	\$1,156,000	\$1,179,000	\$1,202,000
83,000	76,000	76,000	76,000
3,117,000	3,098,000	3,098,000	3,098,000
683,000	757,000	849,000	849,000
122,000	121,000	124,000	126,000
93,000	93,000	93,000	93,000
<u>5,266,000</u>	<u>5,301,000</u>	<u>5,419,000</u>	<u>5,444,000</u>
0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>5,266,000</u>	<u>5,301,000</u>	<u>5,419,000</u>	<u>5,444,000</u>
2,808,000	2,880,000	2,954,000	3,007,000
1,703,000	1,833,000	1,976,000	2,131,000
290,000	303,000	317,000	332,000
171,000	176,000	182,000	188,000
126,000	126,000	126,000	126,000
12,000	12,000	12,000	12,000
211,000	0	0	0
50,000	55,000	0	0
6,000	3,000	0	0
365,000	371,000	375,000	380,000
<u>5,742,000</u>	<u>5,759,000</u>	<u>5,942,000</u>	<u>6,176,000</u>
20,000	20,000	20,000	20,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
<u>5,762,000</u>	<u>5,779,000</u>	<u>5,962,000</u>	<u>6,196,000</u>
(496,000)	(478,000)	(543,000)	(752,000)
<u>(644,000)</u>	<u>(1,140,000)</u>	<u>(1,618,000)</u>	<u>(2,161,000)</u>
<u>(1,140,000)</u>	<u>(1,618,000)</u>	<u>(2,161,000)</u>	<u>(2,913,000)</u>
21,000	21,000	21,000	21,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>21,000</u>	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>
(1,161,000)	(1,639,000)	(2,182,000)	(2,934,000)
110,000	339,000	574,000	810,000
<u>(\$1,051,000)</u>	<u>(\$1,300,000)</u>	<u>(\$1,608,000)</u>	<u>(\$2,124,000)</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the Southern 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 January 16, 2003, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 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.

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
<u>Revenues and Other Sources</u>			
General Fund as Previously Reported	\$4,469,000	\$4,450,000	\$4,425,000
Removal of Intrafund Transfers	(32,000)	0	0
DPIA	338,000	305,000	350,000
State Foundation Revenue Allocated to Debt Service	0	314,000	696,000
Debt Service Activity Related to General Fund Supported Debt	68,000	71,000	69,000
Total Revenues and Other Sources per Forecast	<u>4,843,000</u>	<u>5,140,000</u>	<u>5,540,000</u>
<u>Expenditures and Other Uses</u>			
General Fund as Previously Reported	4,292,000	4,151,000	4,656,000
Removal of Intrafund Transfers	(32,000)	0	0
DPIA	328,000	315,000	309,000
Textbook Subsidy	7,000	0	0
State Emergency Advance Repayment	0	314,000	696,000
Debt Service Activity Related to General Fund Supported Debt for Asbestos Loan	68,000	71,000	69,000
Total Expenditures and Other Uses per Forecast	<u>\$4,663,000</u>	<u>\$4,851,000</u>	<u>\$5,730,000</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Excess of Revenues and Other Sources Over(Under) Expenditures and Other Uses	\$180,000	\$289,000	(\$190,000)
Cash Fund Balance at Beginning of Fiscal Year	9,000	189,000	478,000
Cash Fund Balance at End of Fiscal Year	189,000	478,000	288,000
Encumbrances at Fiscal Year End	0	(15,000)	(21,000)
Budget Reserve at Fiscal Year End	(25,000)	(25,000)	(37,000)
Unencumbered/Unreserved Fund Balance at Fiscal Year End	<u>\$164,000</u>	<u>\$438,000</u>	<u>\$230,000</u>

Note 3 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts and disbursements which is consistent with the cash basis of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

B. - Fund Accounting

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

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.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

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

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

Proprietary Funds

Enterprise Funds - Enterprise funds account for 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 cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. 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 Meigs 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.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

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 Southern 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, and tangible personal property taxes. Advances may be requested from the Meigs 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 presented in the forecast schedule as property tax allocation.

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

The general fund 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:

Tax Levies	Year Approved	Last Year of Collection	Full Tax Rate (Mills)
Inside Ten Mill Limitation	n/a	n/a	\$3.50
Continuing Operating	Prior to 1976	n/a	16.50
Continuing Operating	1982	n/a	3.00
Current Operating	2000	2003	4.00
Total Tax Rate			<u>\$27.00</u>

The School District has other levies that total \$4.89 mills; \$4.39 of which are used for the payment of bonds issued for the construction of school facilities, and a \$.50 mill levy for the upkeep of project facilities. Total millage levied on property in the School District is \$32.39.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

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 authorized voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$20.00 mills and the effective commercial and industrial rate is \$24.35 mills.

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 represent gross property tax revenue. The fiscal year 2003 general property tax revenue estimate is based upon actual receipts and information provided by the Meigs County Auditor. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account. Based upon these estimates, the School District anticipates receiving \$1,239,000 in real estate tax revenue in fiscal year 2003, a \$63,000 decrease from the previous fiscal year. This decrease is caused by the effect of gas and electric deregulation, which resulted in a \$12,540,000 loss in tax valuation. The loss in real estate tax revenue due to gas and electric deregulation is being fully reimbursed by the State through additional grants-in-aid.

The School District anticipates a decrease of 6 percent in fiscal year 2004 due to the expiration of the current operating levy. For fiscal year 2005, the School District estimates an increase of two percent plus an additional eleven percent increase in fiscal year 2005 due to the six year reappraisal which will be offset by a decrease due to a full year of revenue loss from the expiration of the current operating levy. The percentage increase is based upon the six year reappraisal that occurred in fiscal year 1998. In fiscal years 2006 and 2007 an increase of two percent is anticipated.

Tangible Personal Property Tax - Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues for fiscal year 2003 are based upon information provided by the Meigs County Auditor. Based upon these estimates, the School District anticipates receiving \$90,000 in tangible personal property tax revenue in fiscal year 2003, a \$7,000 increase from the previous fiscal year due to increased taxable personal property in the County. Beginning in fiscal year 2004, a decrease of \$7,000 is anticipated due to the expiration of the current operating levy. The School District anticipates tangible personal property taxes receipts for fiscal years 2005 through 2007 to remain at \$72,000 for the remainder of the forecast period.

Current Operating Levy - The four mill operating levy was originally approved in November 1997 for a three-year period beginning January 1, 1998 and ending December 31, 2000. The levy was renewed in November 2000 for another three-year period beginning January 1, 2001 and ending December 31, 2003. The Financial Planning and Supervision Commission's current recovery plan indicates that the renewal levy will be placed on the ballot. The Board plans to place a renewal levy on the November 2003 ballot, and because this is an existing levy, assumes passage.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

B. - Unrestricted Grants-in-Aid

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

In 2002, State law set the base cost per pupil for fiscal year 2003 at \$4,949 and increased the rate each year thereafter by two and eight-tenths percent to \$5,088 for fiscal year 2004, \$5,230 for fiscal year 2005, \$5,376 for fiscal year 2006, and \$5,527 for fiscal year 2007. Formula aid is calculated by multiplying cost per pupil times ADM, with an adjustment for property valuation.

The anticipated revenue for fiscal year 2003 is based on current estimates provided by the Ohio Department of Education. The anticipated increase of \$25,000 is based on an increase in special education funding and transportation funding. This is offset by a decrease in basic state aid due to reductions in ADM.

The anticipated revenue for fiscal years 2004 and 2005 are based on estimates obtained from the Ohio Department of Education. The estimates reflect an increase in 2004 due to additional transportation, vocational education, and special education funding. The estimates reflect a decrease of one percent for fiscal year 2005 due to an anticipated decline in ADM. The decrease in ADM is a result of students moving to bordering school districts through open enrollment, and the inability to attract new families due to the lack of employment opportunities within the School District. The School District anticipates that fiscal years 2006 and 2007 will remain consistent with fiscal year 2005 with ADM decreases offset by increases in per pupil funding.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August. The School District is anticipating \$339,000 in public utility reimbursements in fiscal year 2003, which is based on information provided by the Ohio Department of Taxation.

C. - Restricted Grants-in-Aid

Presented below is a comparison of restricted grants-in-aid for fiscal years 2003 through 2007.

	Forecast Fiscal Year 2003	Forecast Fiscal Year 2004	Forecast Fiscal Year 2005	Forecast Fiscal Year 2006	Forecast Fiscal Year 2007
Bus Purchase Allowance	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Career Tech	51,000	52,000	52,000	52,000	52,000
Parity Aid	183,000	282,000	367,000	459,000	459,000
DPIA	328,000	329,000	318,000	318,000	318,000
Totals	<u>\$582,000</u>	<u>\$683,000</u>	<u>\$757,000</u>	<u>\$849,000</u>	<u>\$849,000</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

The anticipated increase in parity aid is attributable to legislated increases in the distribution formula. The State set parity aid funding at 20 percent of the total allocation in fiscal year 2002 and increased the distribution 20 percent each year with full distribution of 100 percent in fiscal year 2006.

The anticipated revenue for DPIA funding for fiscal years 2004 and 2005 is based on estimates obtained from the Ohio Department of Education. The School District anticipates that fiscal years 2006 and 2007 DPIA funding will remain constant with fiscal year 2005 based on historical patterns.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

Property tax allocation revenue, based on information provided by the Meigs County Auditor, is anticipated to increase by \$7,000 for fiscal year 2003.

The School District anticipates that the property tax allocation will fall in fiscal year 2004 through 2005 due to the expiration of the operating levy. The property tax allocation is forecasted to increase slightly in fiscal years 2006 and 2007 in proportion to the real property tax revenues.

E. - All Other Revenues

All other revenues, which include interest on investments, are anticipated to remain constant throughout the forecast period. The School District estimates that in fiscal year 2003, all other revenue will increase by \$1,000.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being recorded in the general fund.

F. – Solvency Assistance Advances

The School District has received a solvency assistance advance in each of the past three fiscal years to finance operations. Solvency assistance advances are interest free and are paid back to the Ohio Department of Education over two years through deductions from unrestricted grants-in-aid. Current and future solvency assistance advances are not included in the forecast since such advances have not yet been authorized.

G. - Advances In

Advances in represents amounts advanced to other funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year. The School District does not anticipate any advances in for fiscal years 2003 through 2007.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

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, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis. The certified, classified, and administrative staffing levels are expected to remain constant during the forecast period.

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives. Classified staff salaries are also based on a negotiated contract which includes step increases. The contracts cover the period from July 1, 2001, to June 30, 2002 and both were extended to June 30, 2003. Both certified and classified contracts do not include base salary increases. Administrative salaries are set by the Board of Education.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum of 240 days, depending on years of service. Severance payments are anticipated to increase in fiscal year 2003 because of the amount of teachers planning to retire. For the remainder of the forecast period, severance payments are anticipated to remain constant with fiscal year 2004.

The School District's base minimum salary for its teachers matches the State's minimum salary. In the last ten years, the State's minimum salary increased \$3,000 in fiscal year 2002 and \$300 in fiscal year 1993. The School District does not anticipate the base salary to increase during the forecast period and will continue to offer the State's minimum salary in any new contract with its certified staff. However, step increases of one percent for classified employees and three percent for certified employees are anticipated each year.

The likelihood of achieving no base increases for the next four years is unknown and the realization of the forecast is particularly sensitive to any increase in the base salaries. An increase of one percent in the base salaries in 2004 would increase total expenditures for salaries by \$23,000 each fiscal year. This increase would cause the deficit in 2007 to increase \$92,000. If a one percent increase occurs each fiscal year through 2007, the deficit would increase in 2007 by \$259,000

Presented below is a comparison of salaries and wages for fiscal years 2003 through 2007.

	Forecast Fiscal Year 2003	Forecast Fiscal Year 2004	Forecast Fiscal Year 2005	Forecast Fiscal Year 2006	Forecast Fiscal Year 2007
Certified Salaries	\$2,032,000	\$2,093,000	\$2,156,000	\$2,221,000	\$2,266,000
Classified Salaries	528,000	533,000	538,000	543,000	548,000
Substitute Salaries	72,000	73,000	75,000	77,000	78,000
Supplemental Contracts	47,000	48,000	49,000	50,000	51,000
Severance Pay	20,000	15,000	15,000	15,000	15,000
Other Salaries and Wages	45,000	46,000	47,000	48,000	49,000
Totals	<u>\$2,744,000</u>	<u>\$2,808,000</u>	<u>\$2,880,000</u>	<u>\$2,954,000</u>	<u>\$3,007,000</u>

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B. - Employees' Retirement/Insurance Benefits

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

Retirement costs are based on the employers' contribution rate of 14 percent for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year.

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

Workers' compensation premiums are based on the School District's premium rate and the anticipated salaries for the fiscal year. A 75 percent reduction in workers' compensation premiums for fiscal 2002 is not anticipated for fiscal year 2003.

In fiscal years 2004 through 2007, the School District estimates that STRS and SERS retirement, and Medicare/Workers' Compensation will increase consistent with the anticipated increase in certified salaries of three percent and an increase of one percent in classified 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 will experience an increase of 30 percent in health insurance premiums, a 10 percent increase in vision insurance premiums, and a 7 percent increase in dental insurance premiums during fiscal year 2003. During the remainder of the forecast period, the School District anticipates health insurance premiums will increase ten percent and all other employee insurance will increase five percent each year.

The School District anticipates negotiating a shared premium arrangement on health care costs with the certified and classified staff. Although not factored into the five year forecast, an eight percent employee participation would decrease the total expenditures for Employees Retirement/Insurance Benefits by \$91,000 in 2004, \$101,000 in 2005, \$111,000 in 2006, and \$122,000 in 2007. These decreases would cause the deficit in 2007 to decrease \$425,000.

Presented below is a comparison of fiscal years 2003 through 2007.

	Forecast Fiscal Year 2003	Forecast Fiscal Year 2004	Forecast Fiscal Year 2005	Forecast Fiscal Year 2006	Forecast Fiscal Year 2007
STRS Retirement	\$321,000	\$331,000	\$341,000	\$351,000	\$361,000
SERS Retirement	98,000	99,000	100,000	101,000	102,000
Medicare/Workers' Compensation	41,000	42,000	43,000	44,000	45,000
Health Insurance	1,039,000	1,143,000	1,257,000	1,383,000	1,521,000
Other Employee Insurances	84,000	88,000	92,000	97,000	102,000
Totals	<u>\$1,583,000</u>	<u>\$1,703,000</u>	<u>\$1,833,000</u>	<u>\$1,976,000</u>	<u>\$2,131,000</u>

Southern Local School District
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Summary of Significant Forecast Assumptions and Accounting Policies
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C. - Purchased Services

Presented below is a comparison of forecasted purchased service expenditures for fiscal years 2003 through 2007.

	Forecast Fiscal Year 2003	Forecast Fiscal Year 2004	Forecast Fiscal Year 2005	Forecast Fiscal Year 2006	Forecast Fiscal Year 2007
Professional and Technical Services	\$32,000	\$33,000	\$33,000	\$34,000	\$35,000
Property Services	72,000	79,000	87,000	96,000	105,000
Travel and Meeting Expenses	12,000	12,000	12,000	12,000	12,000
Communication Costs	28,000	29,000	30,000	31,000	32,000
Utility Services	116,000	119,000	123,000	126,000	130,000
Tuition Payments	8,000	9,000	9,000	9,000	9,000
Pupil Transportation	8,000	8,000	8,000	8,000	8,000
Other Purchased Services	2,000	1,000	1,000	1,000	1,000
Totals	<u>\$278,000</u>	<u>\$290,000</u>	<u>\$303,000</u>	<u>\$317,000</u>	<u>\$332,000</u>

The decrease in purchased services from fiscal year 2002 to fiscal year 2003 is based on the following:

- A decrease in professional and technical services as a result of inspections relating to the new school performed in fiscal year 2002 not being needed in fiscal year 2003,
- A fifty-one percent increase in property insurance and a twenty-eight percent increase in fleet insurance, and;
- An increase in communication costs due to the cost of a new phone system installed in the new elementary school.

In fiscal years 2004 through 2007, the School District forecasts that purchased services will increase an average of four and a half percent per year. Professional and technical services are expected to increase two percent per year while communication and utility services are forecasted to increase three percent per year. Property services are expected to see a ten percent increase per year due to the historical trend of property and fleet insurance costs. Travel and meeting expenses, tuition, pupil transportation, and other purchased services are expected to remain constant for fiscal years 2004 through 2007.

D. - Supplies and Materials

Presented below is a comparison of forecasted supplies and materials expenditures for fiscal years 2003 through 2007.

	Forecast Fiscal Year 2003	Forecast Fiscal Year 2004	Forecast Fiscal Year 2005	Forecast Fiscal Year 2006	Forecast Fiscal Year 2007
General Supplies, Library Books and Periodicals	\$52,000	\$53,000	\$54,000	\$56,000	\$57,000
Operations, Maintenance and Repair	73,000	76,000	80,000	84,000	89,000
Textbooks	41,000	42,000	42,000	42,000	42,000
Totals	<u>\$166,000</u>	<u>\$171,000</u>	<u>\$176,000</u>	<u>\$182,000</u>	<u>\$188,000</u>

Southern Local School District
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The changes in supplies and materials for fiscal year 2003 from fiscal year 2002 are based on the following:

- General supplies and materials were higher in fiscal year 2002 due to the new school opening and the need for new supplies; therefore, general supplies and materials are forecasted to decrease in fiscal year 2003; and
- A decrease in expenditures for textbooks.

In fiscal years 2004 through 2007, the School District forecasts that supplies and materials will increase three percent each year. While library books and periodicals will remain consistent with fiscal year 2003, general supplies are expected to increase three percent each year. Operations, maintenance and repair will increase four and one half percent each year based on historical trend. Textbooks are forecasted to remain constant with fiscal year 2003 based on the School District updating their textbooks in fiscal years 2001 and 2002.

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.

The School District concluded a school facilities project at the end of 2002. Proceeds from the sale of bonds and state grants were used to construct facilities and to furnish and equip the facilities. The School District issued approximately \$4,000,000 in bonds and received \$5,700,000 in State classroom facilities money.

In fiscal year 2002, the School District purchased three school buses. In fiscal year 2003, the School District anticipates purchasing one school bus. Equipment purchases and capital repairs are anticipated to decrease in fiscal year 2003 due to acquisitions in 2002 for the new elementary building and high school addition.

In fiscal years 2004 through 2007 the School Districts anticipates that capital outlay will remain at approximately \$126,000. These expenditures include a new school bus each year, equipment, and repairs.

F. - Debt Service

General fund supported debt consists of a School District solvency assistance fund advance, an asbestos abatement loan, and energy conservation notes. The solvency assistance fund advance from fiscal year 2002 will be repaid in fiscal year 2004, the asbestos loan will reach final maturity in fiscal year 2013, and the energy conservation notes will reach final maturity in fiscal year 2005. The forecasted changes in the general fund obligations are as follows:

	Interest Rate	Balance 6/30/2002	Issued	Retired	Balance 6/30/2003
State Solvency Assistance Advance 2001	0.00%	\$383,000	\$0	\$383,000	\$0
State Solvency Assistance Advance 2002	0.00%	422,000	0	211,000	211,000
Asbestos Abatement Loan 1995	5.75%	155,000	0	50,000	105,000
Energy Conservation Note 1995	0.00%	124,000	0	12,000	112,000
Total		<u>\$1,084,000</u>	<u>\$0</u>	<u>\$656,000</u>	<u>\$428,000</u>

Southern Local School District
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Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

G. - Other Objects

Other objects include dues, fees, liability insurance, and county educational service center costs. For fiscal year 2003, the School District is forecasting \$330,000 in dues and fees, a \$237,000 increase from fiscal year 2002 due to an increase in educational service center fees. This significant increase is a result of the School District not being properly billed in fiscal year 2002 by the educational service center; therefore, the School District is paying for both fiscal year 2002 and 2003 in the current year. The School District is also forecasting \$128,000 in open enrollment fees for fiscal year 2003, an increase of \$5,000 from fiscal year 2002 due to more students leaving the School District to attend school at neighboring districts.

In fiscal year 2004, the School District anticipates other objects will decrease by \$100,000 due to the School District paying only one year of educational service center costs as compared to two years in fiscal year 2003. In fiscal years 2005 through 2007, the School District anticipates other objects will increase marginally each year.

H. - Operating Transfers

The School District expects to make a transfer from the general fund to the lunchroom fund in the amount of \$20,000 during fiscal years 2003 through 2007 to cover operating deficits in the lunchroom fund.

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 balance.

Historically, the School District has very limited encumbrances at the end of a fiscal year. The amount forecasted for fiscal year 2003 represents \$3,000 in purchased services, \$1,000 in supplies and materials, and \$18,000 in capital outlay.

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.

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Summary of Significant Forecast Assumptions and Accounting Policies
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A. - Textbooks and Instructional Materials

The set aside amount for fiscal year 2003 is \$94,000. The School District is carrying over \$68,000 in excess qualifying expenditures from fiscal year 2002. Qualifying expenditures in the amount of \$93,000 are anticipated; therefore, no textbook and instructional materials reserve is required.

In fiscal years 2004 through 2007, the School District anticipates qualifying expenditures to be equal to or more than the required reserve; therefore, the negative carryover will continue to be carried forward and no set aside will be required.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2003 is \$94,000. There was a negative carryover from fiscal year 2002; therefore, no reserve is anticipated.

In fiscal years 2004 through 2007, the School District anticipates qualifying expenditures plus offset amounts to be equal to or more than the required reserve; therefore, no set aside will be required.

C. - Budget Stabilization

In prior years, the School District was also required to set aside money for the budget stabilization. During fiscal year 2003, the School District plans to use the budget stabilization reserve to help finance the operating deficit.

D. - Disadvantaged Pupil Impact Aid (DPIA)

The School District anticipates receiving \$328,000 in restricted DPIA monies during fiscal year 2003. The School District also anticipates spending \$346,000 in the current fiscal year. Therefore, no reserve is anticipated at June 30, 2003.

In fiscal years 2004 through 2007, the District anticipates that the DPIA fund will continue to spend the full amount of revenues received for the fiscal year. No DPIA reserve is anticipated for fiscal years 2004 through 2007.

Note 9 - Levies

The School District does not plan to place any levies on the ballot during fiscal year 2003. In fiscal year 2004, the School District plans to place the 4 mill operating/renewal levy on the ballot. The School District does not currently plan to place any levies on the ballot during fiscal years 2005 through 2007. 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:

Southern Local School District
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Summary of Significant Forecast Assumptions and Accounting Policies
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Date	Type	Amount	Term	Election Results
May 1994	Operating	4 mills	Continuing	Failed
November 1994	Operating	4 mills	3 Years	Passed
March 1996	Bond Issue	5.6 mills	23 Years	Failed
August 1996	Bond Issue	4.92 mills	23 Years	Failed
November 1997	Operating/Renewal	4 mills	3 Years	Passed
May 1998	Bond Issue	4.89 mills	23 Years	Passed
November 2000	Operating/Renewal	4 mills	3 Years	Passed

Note 10 - 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 11 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 12 – Financial Planning and Supervision Commission

On November 8, 1999, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, State Director of Budget and Management, the Meigs County Auditor, an appointee of the Superintendent of Public Instruction, an appointee of the Governor, and an appointee of the Meigs County Auditor.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003 through 2007

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SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS 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
MARCH 6, 2003**