

MATHEWS LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

**FISCAL WATCH
TERMINATION**

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
FISCAL WATCH TERMINATION**

TABLE OF CONTENTS

	PAGE
Fiscal Watch Termination	1
Fiscal Watch Termination Analysis	2
Guidelines for Removal from Fiscal Watch	2
Analysis of Worked Performed	3
Conclusion	6
Disclaimer	7
Schedule of Revenues, Expenditures and Changes in Fund Balance for Fiscal Years Ended June 30, 1997, 1998, and 1999 Actuals; Fiscal Years Ending June 30, 2000, 2001, 2002, 2003 and 2004 Forecasted	8
Summary of Significant Forecast Assumptions	9
Summary of Significant Accounting Policies	17



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

FISCAL WATCH TERMINATION

Pursuant to a request to the Auditor of State dated August 18, 1999 by the Mathews Local School District Board of Education to remove the District from Fiscal Watch, the Auditor of State has determined that the Mathews Local School District has met the conditions set forth in the Ohio Department of Education's "Guidelines for Release from Fiscal Watch." The Mathews Local School District's status of Fiscal Watch is hereby terminated as of April 19, 2000.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to Terry Woodyard, President of the Board of Education of the Mathews Local School District, Lee Seiple, Superintendent of the Mathews Local School District, Thomas W. Johnson, Director of Budget and Management, David A. Hines, Trumbull County Auditor, and Dr. Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

April 19, 2000

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Section 3316.03, Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal watch if the Auditor of State determines that the district has met all of the conditions prescribed in Section 3316.03(A). The conditions are summarized as follows:

- An operating deficit has been certified by the Auditor of State that exceeds eight percent of the district's general fund revenue for the preceding fiscal year.
- The unencumbered cash balance of the general fund, reduced by any advance of property taxes, was less than eight percent of the district's general fund expenditures for the preceding fiscal year.
- A levy has not been passed by the voters that will raise enough additional revenue in the succeeding year that will result in the first two conditions not being met in the succeeding year.

The analysis conducted of the Mathews Local School District dated December 24, 1997 for the purpose of determining whether the District met the conditions outlined above resulted in the Auditor of State certifying an operating deficit for the general fund in the amount of \$523,000. This amount exceeded eight percent of the general fund revenues of the prior fiscal year. The Mathews Local School District's unencumbered cash balance for the preceding fiscal year was \$48,000 which was less than eight percent of the preceding fiscal year expenditures. Additionally, the District had not passed a levy as of December 24, 1997 that would eliminate the first two conditions. As a result, the Auditor of State declared the Mathews Local School District to be in a state of fiscal watch as defined by Section 3316.03(A), Revised Code on January 26, 1998.

GUIDELINES FOR REMOVAL FROM FISCAL WATCH

The procedures for removing a district from fiscal watch are set forth in "Guidelines for Release from Fiscal Watch," developed by the Ohio Department of Education. The guidelines permit a district to submit a request for release from fiscal watch in the fiscal year following the fiscal year in which the Auditor of State designated the district in fiscal watch. A district may not request release from fiscal watch in the same fiscal year in which the Auditor of State made the designation. Additionally, a district may not request release from fiscal watch until the State Superintendent of Public Instruction has approved the financial recovery plan of the district.

The steps for districts seeking release are as follows:

1. The district must adopt a resolution requesting release from fiscal watch. A copy of the resolution requesting release must be submitted to the Auditor of State and the State Superintendent of Public Instruction.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

GUIDELINES FOR REMOVAL FROM FISCAL WATCH (continued)

2. The district must prepare a financial forecast for the current fiscal year for the purpose of demonstrating whether the fiscal watch conditions have been eliminated. The Auditor of State will conduct an examination of the one-year financial forecast of the district to insure that the district no longer meets the criteria identified in Section 3316.03(A).
3. The Department of Education will conduct a separate financial analysis and an in-depth review of the financial plan to insure that the district will avoid future fiscal watch conditions.
4. In concurring on the release, the Auditor of State and State Superintendent of Public Instruction will have satisfied themselves of the following:
 - A. **Fiscal Watch Condition** - The fiscal watch criteria outlined in Section 3316.03(A) have been corrected or eliminated and it appears the district will remain out of fiscal watch for the next five years as demonstrated in the financial forecast prepared by the district.
 - B. **Financial Recovery Plan** - objectives of the financial recovery plan are being met or are in the process of being met.
 - C. **Accounting Policies** - polices for sound accounting, purchasing and reporting are adopted and are in the process of being implemented.
5. The Auditor of State will issue a notice of termination of fiscal watch if the Auditor of State and the Department of Education concur that the above conditions have been satisfied.

ANALYSIS OF WORK PERFORMED

Fiscal Watch Conditions

Pursuant to the request of the Board of Education of the Mathews Local School District, Trumbull County, Ohio, the Auditor of State examined the District's financial forecast for the fiscal year ending June 30, 2000 for the purpose of determining whether the fiscal watch conditions have been eliminated. The District also provided the Auditor of State and the Department of Education with a five year forecast for the period ending June 30, 2004 to demonstrate whether the District will remain out of fiscal watch.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Fiscal Watch Conditions (continued)

Our examination of the District's financial forecast for the year ended June 30, 2000 and the information contained in the District's five year forecast disclosed the following:

1. At June 30, 2000, the general fund is forecasted to have a positive unreserved fund balance in the amount of \$287,000.
2. The five-year financial forecast demonstrates that the District has included increases/decreases in revenues based upon anticipated growth and historical information. The five-year financial forecast also reflects increases in expenditures based upon historical trends and anticipated spending. The general fund is forecasted to have a positive unreserved fund balance through fiscal year 2004 as reflected in the District's five year financial forecast.

In summary, the fiscal watch conditions have been corrected and it appears that the District will remain out of fiscal watch for the next five years.

Financial Recovery Plan

We obtained a copy of the latest financial plan of the District dated October 25, 1999, and were able to summarize the progress of implementation of the provisions of the financial plan. The progress is as follows:

1. Passage of a new 12.68 mill property tax levy in May of 1999 to generate additional revenue of \$1,082,500 annually;
2. Reductions were made in some educational programs, but were reinstated after the passage of a new levy in May 1999;
3. Personnel salaries were not increased beyond the current negotiated agreements;
4. The elimination of teaching positions and other positions were made; some were reinstated after the passage of a new levy in May 1999; and
5. The purchase of textbooks and bus replacements has been reinstated.

We reviewed the objectives of the financial recovery plan and determined that the District has implemented or is in the process of implementing the plan.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Accounting Policies

As part of the termination process, we reviewed audit reports issued by the Auditor of State's Office, discussed any accounting deficiencies with Auditor of State personnel, and through inquiry of the District officials and observation of the District records determined that all of the financial accounting and reporting system are functioning adequately. We also reviewed monthly monitoring reports of School District activity prepared by the Ohio Department of Education. The District currently:

1. Performs monthly reconciliations.
2. Deposits receipts in the bank on a timely basis.
3. Properly accounts for the receipt of merchandise.
4. Does not receive goods on canceled purchase orders.
5. Maintains records for consumable inventory and fixed assets.
6. Files the tax budget with the Trumbull County Budget Commission on a timely basis.
7. Reported the cash fund balances and outstanding encumbrances to the Trumbull County Budget Commission on a timely basis for the year ended June 30, 1999.
8. Continuously monitors revenue flows and expenditure levels by maintaining an up-to-date five year forecast.
9. Executes 5705.412 certifications for all appropriation measures and major contracts.
10. Follows the provisions of the Ohio Revised Code and Ohio Administrative Rules throughout the budgetary process. The District adopts annual appropriations, files all necessary budgetary information with the Trumbull County Auditor and the Ohio Department of Education, and issues proper documents with appropriate approval for all purchases.
11. Maintains all financial information including revenue, expenditure, payroll and EMIS information. The District utilizes the Uniform School Accounting System through Northeastern Ohio Management Information Network (NEOMIN), its computer consortium.
12. Prepares annual financial reports in accordance with generally accepted accounting principles which are audited on a two-year cycle. The financial statements for the year ending June 30, 1998 were audited by the Auditor of State's Office and we expressed a qualified opinion on the financial statements in a report dated December 30, 1998 which raised substantial doubt about the School District's ability to continue as a going concern.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

In summary, pursuant to the review of the aforementioned areas, the District appears to have policies in place for sound accounting, purchasing and reporting procedures.

CONCLUSION

The financial forecast for the fiscal year ending June 30, 2000 has been examined by the Auditor of State and the opinion states that the forecasted schedules conform with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants (AICPA) and the underlying assumptions provide a reasonable basis for the Board's assumptions. In addition, the District's five year forecast for the years ending June 30, 2004 has been reviewed by the Auditor of State and the Ohio Department of Education as part of the termination analysis. The Auditor of State and the Ohio Department of Education concur that the information presented in these forecasts demonstrates that the District will remain out of fiscal watch for the five year period ending June 30, 2004, the objectives of the financial recovery plan are being met and policies for sound accounting, purchasing and reporting are adopted and are in the process of being implemented. Based on this analysis, the Auditor of State's Office has determined that the fiscal watch may be terminated.

It is understood that this report's determination is for the use of the District's Board of Education, the Superintendent of the Mathews Local School District, the Director of Budget and Management, the Trumbull County Auditor, the State Superintendent of Public Instruction, and the Auditor of the State of Ohio, and others as designated by the Auditor of State, and is not to be used for any other purpose.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

DISCLAIMER

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

MATHEWS LOCAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1997, 1998 AND 1999 ACTUAL;
FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002, 2003 AND 2004 FORECASTED
GENERAL FUND

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
Revenues								
General Property Tax	\$2,304,000	\$2,298,000	\$2,373,000	\$2,790,000	\$3,346,000	\$3,346,000	\$3,347,000	\$3,348,000
Tangible Personal Property Tax	340,000	382,000	419,000	380,000	351,000	241,000	326,000	401,000
Unrestricted Grants-in-Aid	2,198,000	2,359,000	2,674,000	2,594,000	2,589,000	2,589,000	2,589,000	2,589,000
Restricted Grants-in-Aid	35,000	58,000	55,000	38,000	34,000	33,000	32,000	31,000
Property Tax Allocation	270,000	278,000	284,000	335,000	402,000	402,000	402,000	402,000
All Other Revenues	120,000	131,000	90,000	127,000	140,000	124,000	121,000	117,000
<i>Total Revenues</i>	<u>5,267,000</u>	<u>5,506,000</u>	<u>5,895,000</u>	<u>6,264,000</u>	<u>6,862,000</u>	<u>6,735,000</u>	<u>6,817,000</u>	<u>6,888,000</u>
Other Financing Sources								
Proceeds from Sale of Notes	170,000	667,000	0	0	0	0	0	0
State Emergency Loans	0	356,000	0	0	0	0	0	0
Advances In	0	0	9,000	0	0	0	0	0
All Other Financing Sources	1,000	4,000	0	1,000	1,000	1,000	1,000	1,000
<i>Total Other Financing Sources</i>	<u>171,000</u>	<u>1,027,000</u>	<u>9,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>5,438,000</u>	<u>6,533,000</u>	<u>5,904,000</u>	<u>6,265,000</u>	<u>6,863,000</u>	<u>6,736,000</u>	<u>6,818,000</u>	<u>6,889,000</u>
Expenditures								
Personal Services	3,575,000	3,620,000	3,172,000	3,599,000	3,804,000	3,958,000	4,095,000	4,219,000
Employees' Retirement/Insurance Benefits	1,077,000	1,202,000	1,080,000	1,112,000	1,241,000	1,328,000	1,421,000	1,520,000
Purchased Services	367,000	459,000	640,000	700,000	721,000	718,000	740,000	762,000
Supplies and Materials	147,000	141,000	131,000	242,000	258,000	271,000	266,000	270,000
Capital Outlay	3,000	50,000	149,000	237,000	246,000	276,000	260,000	192,000
Debt Service:								
Principal-Notes	150,000	670,000	167,000	0	0	0	0	0
Principal-State Loans	0	0	170,000	186,000	0	0	0	0
Principal-HB 264 Loans	0	0	0	0	0	0	0	0
Interest and Fiscal Charges	3,000	10,000	27,000	6,000	0	0	0	0
Other Objects	110,000	114,000	85,000	100,000	125,000	107,000	134,000	115,000
<i>Total Expenditures</i>	<u>5,432,000</u>	<u>6,266,000</u>	<u>5,621,000</u>	<u>6,182,000</u>	<u>6,395,000</u>	<u>6,658,000</u>	<u>6,916,000</u>	<u>7,078,000</u>
Other Financing Uses								
Operating Transfers Out	14,000	11,000	13,000	93,000	96,000	99,000	102,000	105,000
Advances Out	0	9,000	0	0	0	0	0	0
<i>Total Other Financing Uses</i>	<u>14,000</u>	<u>20,000</u>	<u>13,000</u>	<u>93,000</u>	<u>96,000</u>	<u>99,000</u>	<u>102,000</u>	<u>105,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>5,446,000</u>	<u>6,286,000</u>	<u>5,634,000</u>	<u>6,275,000</u>	<u>6,491,000</u>	<u>6,757,000</u>	<u>7,018,000</u>	<u>7,183,000</u>
<i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i>								
	(8,000)	247,000	270,000	(10,000)	372,000	(21,000)	(200,000)	(294,000)
<i>Cash Balance July 1</i>	<u>126,000</u>	<u>118,000</u>	<u>365,000</u>	<u>635,000</u>	<u>625,000</u>	<u>997,000</u>	<u>976,000</u>	<u>776,000</u>
<i>Cash Balance June 30</i>	<u>118,000</u>	<u>365,000</u>	<u>635,000</u>	<u>625,000</u>	<u>997,000</u>	<u>976,000</u>	<u>776,000</u>	<u>482,000</u>
<i>Estimated Encumbrances June 30</i>	<u>109,000</u>	<u>102,000</u>	<u>52,000</u>	<u>256,000</u>	<u>135,000</u>	<u>135,000</u>	<u>135,000</u>	<u>135,000</u>
Reservation of Fund Balance								
Textbooks and Instructional Materials	0	5,000	16,000	0	0	0	0	0
Budget Reserve	0	36,000	36,000	82,000	135,000	193,000	193,000	193,000
DPIA	6,000	1,000	0	0	0	0	0	0
Bus Purchases	1,000	0	0	0	0	0	0	0
<i>Subtotal</i>	<u>7,000</u>	<u>42,000</u>	<u>52,000</u>	<u>82,000</u>	<u>135,000</u>	<u>193,000</u>	<u>193,000</u>	<u>193,000</u>
<i>Unreserved Fund Balance June 30</i>	<u>\$2,000</u>	<u>\$221,000</u>	<u>\$531,000</u>	<u>\$287,000</u>	<u>\$727,000</u>	<u>\$648,000</u>	<u>\$448,000</u>	<u>\$154,000</u>

See accompanying summary of significant forecast assumptions and accounting policies.

Note: Schedule includes general fund, DPIA fund, textbook fund and any portion of the debt service fund related to general fund debt.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Nature of Presentation

This financial forecast presents, to the best of the Mathews Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and changes in fund balance of the general fund for the forecast period. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and their expected course of action as of October 25, 1999, the date of this forecast. The forecast is designed to present the revenues, expenditures and changes in fund balance for the purpose of determining whether the School District will remain out of fiscal watch through the end of fiscal year 2004 and should not be used for any other purpose. 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.

1. General Assumptions

The Mathews Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations.

The forecast includes the revenue and expenditure activity of the general fund, disadvantaged pupil impact aid fund, textbook subsidy fund, and that portion of the debt service fund relating to general fund debt. Transfers in and transfers out that were made between these funds were eliminated.

The forecast contains those expenditures the Board has determined to be necessary to provide for an adequate educational program.

2. Revenue and Other Financing Source Assumptions

Property Taxes

Property taxes consist of real estate, public utility real and personal property, tangible personal property, and trailer 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's fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

General Property Tax (Real Estate)

The general property tax revenue amounts are based upon tax revenues expected to be received from the Trumbull County Auditor. Included in this revenue source are real estate tax revenues only. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Based upon these estimates, the fiscal year 2000 forecasted amount includes one-half year's collections on the new 12.68 mill levy approved in May 1999. Fiscal years 2001 through 2004 include a full year of collections on the new levy and slight increases for new construction.

Tangible Personal Property Tax

This revenue source consists of tangible personal property tax revenue. The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of this exemption is included in the forecasted tangible personal property tax revenue account.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented with regard to the taxing structure of public utilities (namely electric companies). Accordingly, no adjustments have been made to reflect any potential reduction of property tax revenues during the forecast period.

Additionally, the Ohio legislature passed and the Governor approved legislation during 1999 calling for the reduction in the assessed valuation percentage for the inventory of the personal property tax to be one percent a year over the next 25 year period. The School District has incorporated a reduction in the personal property tax collections beginning in fiscal year 2002 through fiscal year 2004 to reflect the change in valuation.

Variations in tangible personal property tax revenues reflect the phasing out of existing equipment and phasing in of new equipment with a 15 percent tax abatement at Delphi Packard, a major industrial operation located within the School District.

Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the 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 of the forecast. Forecasted amounts are based on current information provided by the State Department of Education.

This revenue source includes formula aid, special education aid, training and experience of classroom teachers funding, unrestricted disadvantaged pupil impact aid (a portion is also restricted as explained below), extended service, gifted aid, transportation, vocational education, and equalization enhancement revenues received from the State Department of Education, Division of School Finance. The forecast reflects a decrease in fiscal year 2000 and stable foundation revenues for fiscal years 2001 through 2004 due to declining enrollment and rising property tax values. The School District is currently at the minimum guarantee amount.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Restricted Grants-in-Aid

Restricted grants-in-aid consist of a bus purchase allowance and disadvantaged pupil impact aid (DPIA). The School District anticipates the continuation of State funding from these sources in fiscal years 2000 through 2004.

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).

For the forecast period property tax allocation revenue is forecasted to increase, or decrease, in direct proportion to the real property tax revenues.

All Other Revenues

The School District expects other revenues to fluctuate primarily due to a 15 percent yearly payment being made by Delphi Packard to the School District to offset the loss of revenue from a tax abatement. The School District also anticipates a decline in tuition from students residing outside the School District.

Proceeds of Notes

The School District received proceeds from tax anticipation notes in fiscal years 1997 and 1998 and a State Loan in fiscal year 1998. It is anticipated that no revenues will be received from the proceeds of notes for the fiscal years 2000 through 2004.

3. Expenditure and Other Financing Use Assumptions

The fiscal year 2000 through 2004 anticipated expenditures and other financing uses are based on the following:

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Personal Services

The cost of personal services, which includes salaries and wages for certified and classified staff, supplemental contracts, substitutes, severance pay, board members, overtime, and student workers costs, are based on 26 pays for each fiscal year of the forecast period and the terms of the existing ratified union contracts as amended. Current staff positions, including those expected to be filled, are expected to remain constant for the forecast period. Each fiscal year's forecasted expenditures for personal services allow for additional staff, step increases, educational moves and increases allowed under current and future negotiated union contracts.

Employees' Retirement/Insurance Benefits

The most significant benefits provided for the Mathews Local School District employees include retirement, health care, medicare and workers' compensation coverage. For the forecast period, fringe benefits average 33.6 percent of salaries.

Retirement costs assume the current contribution rate of 14 percent for all programs. Payments are made based upon estimated salary and wage costs. Adjustments resulting from over/underestimates are prorated over the next fiscal year. Retirement costs are expected to grow in relation to the growth in salaries and wages.

Health care costs are based on the coverage terms of the existing health insurance contracts and the anticipated number of employees participating in the program and annual health care premium increases. Medicare benefits are based upon actual results of fiscal year 1999 and anticipated payroll costs for new staff over the forecast period. Workers' compensation premium costs are based on the District's current rate and the anticipated salaries for fiscal years 2000 through 2004. The School District believes that all scheduled payments will be made in the current fiscal year.

Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. The School District is anticipating a \$60,000 increase in purchased services for fiscal year 2000. This increase is due primarily to increased costs for property and utility services. Fiscal years 2001 through 2004 will see expenditures increasing approximately three percent annually for anticipated inflationary increases. Annual expenditures have also been adjusted for a decrease in consultant services beginning in fiscal year 2002 and the cost of bi-annual audits in fiscal years 2002 and 2004.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, dispensary supplies, software materials, textbooks, and supplemental textbooks. Fiscal year 2000 forecasted expenditures are anticipated to increase \$111,000 for supplies and materials attributed to increased computers and computer supplies, as well as textbook and library book expenditures. Fiscal years 2001 through 2004 reflect fluctuations in textbook purchases, instructional materials, and other expenditures for non-instructional purchases which are included in the forecast at annual increases of approximately three percent allowing for inflation.

Capital Outlay

Capital outlay expenditures include buildings and improvements, equipment purchases and upkeep, and school bus acquisitions. Capital outlay expenditures are forecasted for fiscal year 2000 in the amount of \$237,000. The majority of the planned expenditures are for high school and middle school remodeling, installation of a computer lab at the middle school, and the purchase of furniture and equipment for the middle and high school, a replacement bus and various replacement equipment items.

Capital outlay expenditures for forecast years 2001 through 2004 are based on planned new and replacement capital outlay expenditures.

Debt Service

The School District's debt service expenditures required for fiscal year 2000 include only the repayment of a State loan. In fiscal year 2000, the School District will repay \$186,000 in principal and \$6,000 in interest from State foundation revenues.

The School District does not have any debt service payments in the remaining forecast period.

Other Objects

This account includes dues, fees, liability insurance, judgements, and award costs. The amount forecasted for fiscal year 2000 is \$100,000.

The forecasted amounts for fiscal years 2001 through 2004 are based on moderate increases for auditor and treasurer fees based on increasing tax collections and adjustment for bi-annual audit costs.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Other Financing Uses

For fiscal year 2000, this account consists of transfers out of \$93,000 comprised of \$12,000 to the lunch room fund, \$3,000 to the uniform school supplies fund, and \$78,000 to the athletic fund for supplemental contract expenditures previously made from the general fund. No other financing uses are expected within the School District.

For fiscal years 2001 through 2004, total other financing uses are forecasted based on fiscal year 2000 levels with annual inflationary increases.

4. Encumbrances

Encumbrances for the fiscal year ended June 30, 1999 were \$52,000 and are forecasted at \$256,000, including the STRS advance, at June 30, 2000.

Fiscal years 2001 through 2004 encumbrances are based upon a four year average of fiscal years 1997 through 2000.

5. Reservation of Fund Balance

Textbooks and Instructional Materials

The required three percent contribution for fiscal year 2000 for the textbooks and instructional materials set aside amounted to \$137,000. The set aside, including the \$16,000 balance carried forward from fiscal year 1999, will be completely offset by qualifying planned expenditures for textbooks, instructional materials, instructional supplies, instructional software, and instructional equipment.

During the forecast years of 2001 through 2004, the District anticipates qualifying expenditures to equal the set-aside requirement; therefore, no balance is projected for a reserve.

Capital Improvements

The required three percent contribution for fiscal year 2000 for the capital improvements and maintenance set aside amounted to \$137,000. The set aside is completely offset by the proceeds from a permanent improvement levy approved under Section 5705.21 of the Ohio Revised Code. The levy annually generates in excess of \$157,000. The levy will expire at the end of 2003.

The School District will make additional qualifying expenditures to be used for qualifying expenditures for leases, general maintenance, equipment, bus and building repairs, and building improvements, leaving no reserve balance requirement for the current fiscal year.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

The School District has a 2.0 mill capital improvement levy expiring at the end of 2002 with collections continuing through 2003. The School District intends to make every effort to renew this levy.

During the forecast years of 2001 through 2004, the District anticipates proceeds from the levy and qualifying expenditures to equal or exceed the set-aside requirement; therefore, no balance is projected for a reserve.

Budget Reserve

The School District received a refund from the Bureau of Workers' Compensation in fiscal year 1998. This refund was required under Section 39 of House Bill 770 to be part of the five percent set aside reserve balance. Therefore, the refund of \$36,000 received from the Bureau of Workers' Compensation has been reserved for budget stabilization.

A contribution for budget stabilization is required if the base for the prior year grew by at least three percent unless, the School District is in a state of fiscal watch. Since the School District is currently in fiscal watch, this set aside was not required in fiscal years 1999 or 2000. However, since Mathews Local School District has the funds available and its base grew by 3.01 percent, it is the intent of the School District to fund the budget reserve during fiscal year 2000. The additional set aside for the budget reserve is planned at \$46,000 for fiscal year 2000, making the total reserve \$82,000.

The School District projects increases in the revenue base of at least three percent during fiscal years 2001 and 2002. The School District forecasts the set aside requirement to be \$53,000 at the end of fiscal year 2001 and \$58,000 at the end of fiscal year 2002, increasing the budget reserve to \$193,000.

The District does not project growth of at least three percent in fiscal years 2003 and 2004; therefore, the reserve will remain constant for the balance of the forecast period.

DPIA

The School District anticipates spending all disadvantaged pupil impact aid (DPIA) each year and will not have any restricted balances during fiscal years 2000 through 2004.

Bus Purchases

The School District anticipates purchasing a new bus each year, completely expending all bus purchase subsidy money. Therefore the School District will not have any restricted balances during fiscal years 2000 through 2004.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

6. Levies

The School District does not plan to propose any new levies during fiscal years 2000 through 2004.

7. Pending Litigation

There are currently no outstanding issues that would be deemed or interpreted as legally threatening at the time of this forecast.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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 required budget basis (non-GAAP) of accounting which is the same as that used to prepare the historical budgetary statements for the years ended June 30, 1997, 1998, and 1999. Under this system, 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 and to make appropriations for budgetary funds. The appropriations are made by the Board of Education to their classification of accounts and are restricted for such purpose until expended or amended by the Board.

B. Investments

Investment procedures are restricted by the provisions of the Ohio Revised Code. The School District pools cash from all funds for investment purposes. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

C. 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 recording 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

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.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital Project Funds

To account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest. According to governmental accounting principles, the Debt Service Fund accounts for the payment of debt for governmental funds only. Under Ohio law, the debt service fund may be used to account for the payment of debt for both governmental and proprietary funds.

Proprietary Funds

Enterprise Funds

To 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.

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds

To 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, (c) Pension Funds, and (d) Agency Funds.

**MATHEWS LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Budgetary Process

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.

E. Property, Plant and Equipment

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