New Lexington City School District
Perry County

Fiscal Emergency Termination

Local Government Services Division

NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY
FISCAL EMERGENCY TERMINATION

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CERTIFICATION

Pursuant to a request to the Auditor of State by the New Lexington City School District Financial Planning and Supervision Commission, the Auditor of State has determined that the New Lexington City School District no longer meets the fiscal emergency conditions set forth in Section 3316.03 (B), Revised Code, and the New Lexington City School District has met the requirements of Section 3316.16, Revised Code, for termination of the New Lexington City School District Financial Planning and Supervision Commission. Therefore, the existence of the New Lexington City School District Financial Planning and Supervision Commission and its role in the operation of the New Lexington City School District is terminated as of October 12, 2000.

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

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to the New Lexington City School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Janine Conrad, Mayor of the City of New Lexington, and Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

October 12, 2000

NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY

Report on Termination of the New Lexington City School District Financial Planning and Supervision Commission

At the request of the Financial Planning and Supervision Commission (the Commission) of the New Lexington City School District (the School District), Perry County, the Auditor of State has performed an analysis in order to make a determination as to whether this Commission and its functions should be terminated.

The Declaration of Fiscal Emergency

Section 3316.03(B)(2) of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal emergency if the district board of education fails, pursuant to Section 3316.04 of the Ohio Revised Code, to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch.

The Auditor of State conducted an analysis of the New Lexington City School District, dated May 13, 1997 to determine whether the School District met the conditions for fiscal watch. The results of the analysis were as follows:

- The Auditor of State certified an operating deficit for the general fund in the amount of $818,000, which exceeded eight percent of the general fund revenues of the prior fiscal year;
- The New Lexington City School District's unencumbered cash balance for the preceding fiscal year was ($268,000) which was less than eight percent of the preceding fiscal year expenditures; and,
- The School District had not passed a levy that would eliminate the first two conditions.

On September 17, 1997, the Auditor of State declared the New Lexington City School District in Fiscal Emergency at the request of the Superintendent of Public Instruction. The order, dated September 13, 1997, indicated that the New Lexington Board of Education was unable submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch made pursuant to Section 3316.03 of the Ohio Revised Code.

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

- An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
- All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
- The objectives of the financial recovery plan are being met; and,
- The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse."

The results of the analysis performed by the Auditor of State in determining if the Commission will continue to exist is as follows:

NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY

Report on Termination of the New Lexington City School District Financial Planning and Supervision Commission

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The Financial Accounting and Reporting Systems

We obtained and reviewed the December 31, 1997 financial accounting report, the fiscal year 1998 and 1999 audit reports and management letters prepared by the accounting firm of Wilson, Shannon and Snow. We also observed and interviewed various School District personnel regarding current practices and procedures. A summary of the School District's progress in addressing areas in the financial accounting report follows:

Revenue Activity

- The utilization of a daily receipt log - The School District currently enters all receipt activity into the computer system. The Treasurer has the ability to generate a receipt report from the system. A daily receipt log can be generated should issues arise concerning the deposit of daily receipts.

Purchase Order Process

- The posting of purchase orders against accounts without sufficient appropriations - Currently, the School District monitors purchase orders and appropriations to insure that purchase orders are not posted against accounts without sufficient appropriations. The Treasurer monitors the purchasing process on a regular basis to insure that purchase orders are issued within appropriated amounts.

- Elimination of expenditures and encumbrances from exceeding appropriations - The School District does not have appropriations in excess of estimated resources; nor did they have expenditures and encumbrances in excess of appropriations as evidenced in the management letter for the audit completed as of June 30, 1999.

Cash Disbursement Process

- Payment of invoices in excess of original purchase order - The Treasurer exercises his professional judgement in approving for payment an invoice that is in excess of the original purchase order. The Treasurer approves the payment if the excess is reasonable and no adjustments are made. If the excess is not deemed reasonable by the Treasurer, appropriations are reviewed to insure that the payment of the invoice will not result in expenditures exceeding appropriations.

Debt Administration

- School District borrowing - The School District borrowed from the state solvency assistance fund in fiscal year 1997 and 1998. Currently the School District's expenditures are within estimated resources as reflected in the five year forecast and no borrowing is anticipated.

- Proceeds from classroom facility program - The School District issued general obligation bonds in July 1, 1999 which represented the local share for the construction of new school facilities under the classroom facilities program. The School District will retain the proceeds of one-half mill levy under this program which will be used strictly for the maintenance and operation of the new building and remodeled facilities. The School District does not anticipate the use of general fund monies to build or maintain the new facilities.

Fixed Assets

- Fixed asset policy - The School District is in the process of implementing formal fixed asset policies. The School District does however, have a procedure that allows for the capitalization of items purchased in excess of $300.

- Record of fixed assets - The school maintains a record of the property and equipment it owns. The School District contracted with an appraisal company for the valuation of their fixed assets. The valuation report lists fixed assets by location. The last appraisal was completed in 1995. The School District currently is waiting on another appraisal to be performed by the appraisal company to update fixed asset reports for the new computers purchased through School Net, as well as a search for all fixed assets in order to complete a comprehensive update of all assets.

Cash Management and Investing

- The District's investment policy - The District is currently in the process of obtaining the required signatures from the financial institutions executing its transactions, in order to comply with the provision of Senate Bill 81.

- Separation of duties - The Treasurer currently reconciles the general account and the Assistant Treasurer reconciles the payroll account. All reconciliations are then reviewed by the Treasurer for accuracy.

Financial Reporting

- Annual financial reporting - The School District is in the process of preparing financial statements in accordance with generally accepted accounting principles as of June 30, 2000. A cash basis financial report was prepared for fiscal years 1997, 1998 and 1999.

The School District had no compliance issues as evidenced by the 1998 and 1999 audit reports and management letters.

The Fiscal Emergency Conditions

Under Section 3316.03(B) of the Ohio Revised Code, the Auditor of State is to declare a school district in a state of fiscal emergency if the Auditor of State determines the school district has met any of the conditions as follows:

1. All of the following conditions are satisfied with respect to the school district:

   a. The school district cannot demonstrate its ability to repay outstanding loans received under Section 3313.483 and 133.301 of the Ohio Revised Code in accordance with the applicable repayment schedules unless additional loans are obtained under these sections in an aggregate principal amount exceeding 50 percent of the prior year loans;

   b. An operating deficit, reduced by the amount the school district may borrow against its spending reserve, has been certified by the Auditor of State under Section 3313.483 of the Ohio Revised Code that exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year;

c. 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; and,

d. The school district has an average daily membership (ADM) in excess of 10,000.

2. The school district board fails to submit a plan acceptable to the state superintendent of public instruction within one hundred and twenty days of the declaration of fiscal watch;

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

4. A school district has received more than one advancement from the School District Solvency Assistance Fund within a two-year period, or has received one advance and has an operating deficit that exceeds fifteen percent of the school district's general fund revenue for the preceding year.

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

1. The School District does not meet all the conditions identified in item 1 above; therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(1) of the Ohio Revised Code.

2. The School District under fiscal emergency is not required to submit a financial recovery plan to the State Superintendent of Public Instruction; however, the School District's recovery plan was approved by the Financial Planning and Supervision Commission on December 3, 1997. Therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(2) of the Ohio Revised Code.

3. The School District has not restructured or refinanced an emergency operating loan; therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(3) of the Ohio Revised Code.

4. The School District has not received more than one advance under Section 3316.20 of the Ohio Revised Code, within a two year period; therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(4) of the Ohio Revised Code.

<u>The Financial Recovery Plan</u>

We obtained a copy of the financial recovery plan of the School District, dated December 3, 1997, and interviewed the Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission. The major provisions of the financial plan and the School District's progress is as follows:

1. The School District borrowed $117,000 for fiscal year 1998 through tax anticipation notes

2. The School District received an advance in the amount of $403,000 from the School District Solvency Assistance Fund in June 1998 which matured June 2000;

3. The School District utilized the State Building Assistance Fund in conjunction with a local bond issue for construction of facilities which will lower facility operational costs and will allow the School District to run a cost effective facility operations program;

4. The School District passed a three mill five-year operating levy in November 1997. The levy proceeds were first collected in calender year 1999. The levy resulted in $293,000 in additional revenues in the first full year of collection. The School District's five year forecast reflects the levy proceeds through fiscal year 2003;

5. The School District reduced non-personnel expenditures in fiscal year 1998 in the amount of $54,000 compared to fiscal year 1997;

6. The School District has implemented, or is in the process of implementing procedures for encumbering funds as purchase orders are issued to allow for continuous monitoring of the School District's actual financial condition; and

7. The School District's Administration and Board of Education monitor annual appropriations of funds based upon monthly budgetary reports provided by the Treasurer.

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2001, through 2005, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District's five year forecast (see Appendix A) presents a positive unreserved general fund balance for the forecast period and the Auditor of State, in a report dated September 19, 2000, rendered a "nonadverse" opinion on the financial forecast.

Conclusion

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

1. The School District has adopted and implemented, or is in the process of implementing, policies for a sound accounting and reporting system; however, the Auditor of State will monitor the progress to insure full implementation within a two year period;

2. The School District has corrected or eliminated all the fiscal emergency conditions and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency;

3. The objectives of the Financial Recovery Plan are being met by the School District; and

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

The Auditor of State has determined that the Financial Planning and Supervision Commission of the New Lexington City School District and its functions may be terminated; however, Section 3316.16(E), Revised Code, requires the Auditor of State to monitor the progress of implementation of policies for a sound accounting and reporting system. The Auditor of State shall exercise authority under this section and Chapter 117, Revised Code, to secure full implementation within two years.

Report on Termination of the New Lexington City School District Financial Planning and Supervision Commission

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

DISCLAIMER

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

APPENDIX A

New Lexington City School District
Perry County

Financial Forecast
For the Fiscal Years Ending
June 30, 2001 Through 2005

New Lexington City School District
Perry County

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We have examined the accompanying forecasted Schedule of Revenues, Expenditures, and Changes in Fund Balance of the general fund of the New Lexington City School District for the fiscal years ending June 30, 2001 through 2005. Our examination was made in accordance with 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 the New Lexington Board of Education and the preparation and presentation of the forecast.

The accompanying forecast was prepared by management to provide the Ohio Department of Education and the Auditor of State with information to determine whether, under Section 3316.16 of the Ohio Revised Code, the Financial Planning and Supervision Commission will continue to exist and should not be used for any other purpose.

In our opinion, the accompanying forecast is presented in conformity with the 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 management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The historical financial statements for the years ended June 30, 1998 and 1999 (from which the historical data are derived) were audited by other accountants. The financial statements for the years ended June 30, 1998 and 1999, included an unqualified opinion and were dated September 23, 1998, and March 3, 2000, respectively.

We have compiled the revenues, expenditures, and changes in fund balance of the general fund for the year ended June 30, 2000 in accordance with the Statements and Standards for Accounting and Review Services issued by the American Institute of Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed these financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

JIM PETRO
Auditor of State

September 19, 2000

NEW LEXINGTON CITY SCHOOL DISTRICT
PERRY COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1998, THOURGH 2000 ACTUAL;
FISCAL YEAR ENDING JUNE 30, 2001 THROUGH 2005 FORECASTED
GENERAL FUND

	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Actual	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted	Fiscal Year 2005 Forecasted
Revenues								
General Property Tax (Real Estate)	$1,332,000	$1,452,000	$1,556,000	$1,601,000	$1,626,000	$1,700,000	$1,625,000	$1,550,000
Tangible Personal Property Tax	289,000	301,000	361,000	406,000	382,000	382,000	361,000	340,000
Unrestricted Grants-in-Aid	7,199,000	8,104,000	7,831,000	7,797,000	7,779,000	7,451,000	7,525,000	7,600,000
Restricted Grants-in-Aid	0	128,000	184,000	374,000	307,000	307,000	307,000	307,000
Property Tax Allocation	178,000	192,000	212,000	217,000	220,000	230,000	219,000	207,000
All Other Revenues	239,000	244,000	268,000	200,000	200,000	200,000	200,000	200,000
Total Revenues	9,237,000	10,421,000	10,412,000	10,595,000	10,514,000	10,270,000	10,237,000	10,204,000
Other Financing Sources								
Proceeds from Sale of Notes	520,000	0	0	0	0	0	0	0
Operating Transfers-In	0	0	59,000	0	0	0	0	0
Advances - In	0	65,000	86,000	25,000	20,000	20,000	20,000	20,000
All Other Financing Sources	36,000	43,000	50,000	40,000	40,000	40,000	40,000	40,000
Total Other Financing Sources	556,000	108,000	195,000	65,000	60,000	60,000	60,000	60,000
Total Revenues and Other Financing Sources	9,793,000	10,529,000	10,607,000	10,660,000	10,574,000	10,330,000	10,297,000	10,264,000
Expenditures								
Personal Services	5,953,000	6,231,000	6,288,000	6,371,000	6,585,000	6,769,000	6,958,000	7,151,000
Employees' Retirement/Insurance Benefits	1,963,000	2,053,000	2,214,000	2,148,000	2,026,000	2,065,000	2,105,000	2,146,000
Purchased Services	632,000	739,000	627,000	667,000	684,000	603,000	618,000	634,000
Supplies and Materials	343,000	283,000	278,000	276,000	283,000	290,000	297,000	305,000
Capital Outlay	84,000	65,000	158,000	89,000	91,000	93,000	95,000	97,000
Debt Service:								
Principal-State Loans	394,000	505,000	210,000	0	0	0	0	0
Principal-HB 264 Loans	0	0	0	40,000	73,000	76,000	79,000	0
Interest and Fiscal Charges	17,000	0	5,000	15,000	11,000	8,000	4,000	0
Other Objects	104,000	133,000	278,000	529,000	497,000	501,000	506,000	510,000
Total Expenditures	9,490,000	10,009,000	10,058,000	10,135,000	10,250,000	10,405,000	10,662,000	10,843,000
Other Financing Uses								
Transfers Out	91,000	122,000	59,000	20,000	20,000	20,000	20,000	20,000
Advances Out	0	75,000	83,000	24,000	20,000	20,000	20,000	20,000
All Other Financing Uses	0	0	0	0	0	0	0	0
Total Other Financing Uses	91,000	197,000	142,000	44,000	40,000	40,000	40,000	40,000
Total Expenditures and Other Financing Uses	9,581,000	10,206,000	10,200,000	10,179,000	10,290,000	10,445,000	10,702,000	10,883,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	212,000	323,000	407,000	481,000	284,000	(115,000)	(405,000)	(619,000)
Cash Balance July 1	137,000	349,000	672,000	1,079,000	1,560,000	1,844,000	1,729,000	1,324,000
Cash Balance June 30 without Replacement Levy	349,000	672,000	1,079,000	1,560,000	1,844,000	1,729,000	1,324,000	705,000
Estimated Encumbrances June 30	171,000	275,000	379,000	340,000	353,000	316,000	337,000	336,000
Reservations of Fund Balance								
Textbook Reserve	0	0	59,000	128,000	201,000	276,000	354,000	435,000
Capital Improvement and Maintenance	0	7,000	0	0	0	0	0	0
Budget Reserve	0	152,000	93,000	159,000	159,000	159,000	159,000	159,000
Subtotal	0	159,000	152,000	287,000	360,000	435,000	513,000	594,000
Fund Balance June 30 for Certification of Appropriations	178,000	238,000	548,000	933,000	1,131,000	978,000	474,000	(225,000)
Revenue from Replacement/Renewal Levies								
Property Tax - Renewal or Replacement	0	0	0	0	0	0	146,000	293,000
Cumulative Balance of Replacement/Renewal Levy	0	0	0	0	0	0	146,000	439,000
Fund Balance June 30 for Certification of Contracts, Salary Schedules and Other Obligations	178,000	238,000	548,000	933,000	1,131,000	978,000	620,000	214,000
Unreserved Fund Balance June 30	$178,000	$238,000	$548,000	$933,000	$1,131,000	$978,000	$620,000	$214,000

See accompanying summary of significant forecast assumptions and accounting policies
Note: Schedule Includes general fund, DPIA fund, textbook subsidy fund and any portion of debt service fund related to general fund debt

**Summary of Significant Forecast Assumptions and Accounting Policies
for the Fiscal Years Ending June 30, 2001 Through 2005**

Note 1 - Nature of Presentation

The financial forecast presents, to the best of the New Lexington City 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 its expected course of action as of September 19, 2000, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

The accompanying forecast was prepared by management to provide the Ohio Department of Education and the Auditor of State with information to determine whether, under Section 3316.16 of the Ohio Revised Code, the Financial Planning and Supervision Commission will continue to exist and should not be used for any other purpose.

Note 2 - 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 that is used to prepare the historical budgetary statements for the fiscal years ended June 30, 1998, 1999, and 2000. Under this system, certain revenues 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 all funds. Under this method, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Note 3 - General Assumptions

The New Lexington City School District (the School District) will continue to operate its instructional program in accordance with its adopted school calendar for fiscal year 2001 and pay all obligations. A calender has not yet been adopted for fiscal years 2002 through 2005; however, the intent to adopt a calender for future years is assumed in this forecast.

The forecast includes the revenue and expenditure activity of the general fund, DPIA fund, the textbook subsidy fund, and any portion of the debt service fund related to general fund debt.

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

Note 4 - Assumptions for Revenues and Other Financing Sources

Property Taxes

Property taxes consist of real estate, public utility real and personal property, tangible personal property, and trailer taxes. The County Treasurer collects property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the School District their portion of taxes collected. Advances may be requested from the Perry County Auditor as the taxes are collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor’s and treasurer's fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts presented for property tax revenues represent gross property tax revenues.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. State law allows for certain reductions in the form of rollbacks and homestead exemption which are reimbursed by the State. The amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account.

The general property revenues for the forecast period are based on information provided by the Perry County Auditor. These estimates include a two percent increase each year except for the four percent increase in fiscal year 2003, the fiscal year the School District will realize the impact of a triennial update in property valuations. In addition, general property tax revenues for fiscal years 2004 through 2005 have been reduced by $146,000 and $293,000, respectively, for the expiration a three mill, five-year, operating levy.

The increase of $45,000 in fiscal year 2001 is due to the tax year 1999 property revaluation.

Tangible Personal Property Tax - Tangible personal property tax revenues are generated from the property used in business (except for public utilities). The first $10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenues lost due to this exemption. The amount of the reimbursement is included in the forecasted amount of property tax allocation.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). Additionally, the Ohio legislature passed and the governor approved legislation during 1999 calling for the reduction in the assessed valuation of the inventory component of personal property tax by one percent each year over the next 25 years.
As with general property taxes, tangible personal property tax revenues are based on information provided by the Perry County Auditor. The estimated revenue for the forecast period includes an increase in the amount of $45,000 for fiscal year 2001 caused by an increase in personal property tax valuation and decreases each year thereafter for the reduction in the assessed valuation percentage and the expiration of a three mill, five year levy. In addition, personal property tax revenues have been reduced $24,000, beginning in fiscal year 2002, because of the electric deregulation.

Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semimonthly 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, unrestricted disadvantaged pupil impact aid, extended service, gifted aid, transportation, and vocational education.

The forecasted amounts for fiscal year 2001 are based on the current estimates provided by the Ohio Department of Education. Annual increases for fiscal years 2001 through 2005 are limited to one percent due to the uncertainty of State funding.

Unrestricted grants-in-aid also include equity funding distributions. In 1993, a second tier of state aid was paid to school districts whose property wealth fell beneath an established threshold. H.B. 650 phased out equity aid by reducing the number of districts receiving the subsidy and decreasing the number of extra mills equalized for each fiscal year through 2001. Amended Substitute H.B. 282 continues the method of determining equity districts through fiscal year 2002 and increases the number of districts eligible for equity aid. In fiscal year 2002, the number of districts eligible to receive equity funding is 118 and New Lexington City School District ranks twenty fourth on that list. The amount of equity funding anticipated being received for fiscal years 2001 and 2002 is $420,000 and $378,000, respectively.

Restricted Grants-in-Aid

Restricted grants-in-aid consist of a bus purchase allowance in the amount of $57,000 and $317,000 in Disadvantaged Pupil Impact Aid. The School District anticipates the continuation of the bus purchase allowance and the Disadvantaged Pupil Impact Aid revenue for fiscal years 2002 through 2005 at $57,000 and $250,000 annually.

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).

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 the reimbursement, as estimated by the Perry County Auditor, is included in the forecasted amount of personal property tax revenue.

The Perry County Auditor certified the rollback and homestead revenue at $217,000 for fiscal year 2001, an increase of $5,000 from fiscal year 2000. The increase is due to the 1999 property revaluation. For fiscal years 2002 through 2005, the property tax allocation revenue is forecasted to increase. The increase is partially offset by the anticipated loss of revenue due to the expiration of the three mill, five-year operating levy due to expire in fiscal year 2003.

All Other Revenues

All other revenues include revenues not classified elsewhere and includes interest, excess cost reimbursement, rentals, bus trips reimbursements, phone commissions, fees for library books, sale of fixed assets and revenue on behalf of district. For fiscal year 2001, investment earnings are based on historical investment practices and current interest rates. Excess cost reimbursement revenue represents monies the School District anticipates receiving from the Perry County Education Service Center. The School District anticipates revenue to remain constant in this area in fiscal years 2001 through 2005.

Advances-In

The School District annually advances money to the food service fund at the end of each fiscal year. The full amounts of these advances are forecasted to be repaid in the subsequent year. The outstanding advances at the end of fiscal year 2000 were $18,000 to the lunch room fund, $2,000 to the Ohio Reads program, and $4,000 to the emergency repair fund.

Other Financing Sources

The School District accounts for medicare refunds in this category. The School District anticipates the refunds to remain the same throughout the forecast period.

Note 5 - Assumptions For Expenditures and Other Financing Uses

Personal Services

The personal service expenditures of $6,371,000 forecasted for fiscal year 2001 is an increase of $83,000 from fiscal year 2000 levels. The increase is due to an increase in base salary and step increases, substitute pay, and supplemental contracts.

The cost of personal services for fiscal years 2001 through 2005 assumes the same staff levels and includes salaries and wages for certified and classified staff, supplemental contracts, substitutes, severance pay, and board members. The amounts are based on 26 pays for each fiscal year and the terms of the existing ratified union contracts. The School District will renegotiate certified salaries at the end of fiscal year 2001. For fiscal years 2002 through 2005, the forecast reflects step increases and base salary increases similar to prior years and other area school districts.

Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare and workers' compensation coverage.

Retirement costs are based on the current 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 fiscal year. Retirement costs are expected to increase in relation to the increase in salaries and wages.

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 annual increases in health care premiums. Medicare benefits are forecasted based on related anticipated payroll costs for staff over the forecast period. Workers' compensation premium costs are based on the School District's current rate and the anticipated salaries for fiscal years 2001 through 2005.

Employer retirement contributions and insurance benefits are forecasted at $2,148,000 for fiscal year 2001, a decrease of $66,000 from fiscal year 2000. The decrease is caused by the early retirement incentive payments for a program offered in prior years.

Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. The School District is anticipating a $40,000 increase in purchased services for fiscal year 2001. The increase is primarily due to contract services for fixed asset inventory, the contract for the conversion to generally accepted accounting principles (GAAP), and building insurances.

During fiscal years 2001 and 2002, annual expenditure increases are forecasted based on inflationary measures. A significant decrease occurs in fiscal year 2003 due to the completion and occupancy of the new high school, and the elimination of maintenance services for the New Lexington primary and intermediate buildings. The increases in fiscal years 2004 and 2005 are partially offset by savings realized in lower building maintenance costs.

Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, software materials, textbooks, and supplemental textbooks. Fiscal year 2001 forecasted expenditures are anticipated to decrease $2,000 from the prior fiscal year as the result of the School District's attempt to control costs in this area.

Fiscal years 2002 through 2005 include increases for textbook purchases, instructional materials, and other expenditures for non-instructional items based on a two and one-half percent inflationary increase.

Capital Outlay

Capital outlay expenditures are anticipated to increase each year of the forecast period. The forecasted expenditures include new classroom equipment and a school bus each year.

Debt Service

The energy conservation (HB 264) loan will be paid from general fund revenues beginning in fiscal year 2001. Prior to fiscal year 2001, the existing balance of the bond retirement fund was used to make the annual debt service payments. Beginning in fiscal year 2001, the general fund will pay approximately 33 percent of the related debt service payments and in fiscal years 2002 through 2004, the general fund will pay all debt service requirements on the loan.

Other Objects

This account includes dues, fees, liability insurance, county board deductions, and the Perry County Learning Center Program costs. The School District is projecting a $251,000 increase for fiscal year 2001 in this expenditure category. Of the increase, $134,000 is related to costs for a new program at the Perry County Learning Center. The remaining increase is attributable to an increase in county board deductions.

Fiscal year 2002 reflects a decrease which is due to the anticipated decrease in the number of students enrolled in the Perry County Learning Center from thirty-three in fiscal year 2001 to twenty-four in fiscal years 2002 through 2005. The balance of the forecast period reflects annual incremental increases of one percent based on inflation.

Transfers Out

The School District anticipates transfers to other funds in the amount of $20,000 each year. These transfers are subsidies to other funds and/or matching requirements to various grant funds.

Advances Out

The School District expects to advance out $20,000 each year throughout the forecast period to cover operating deficits that are projected to occur in the food service fund.

Encumbrances

Encumbrances for the STRS advance, purchased services, supplies and materials, capital outlay and other expenditures for the fiscal year ended June 30, 2000 were $379,000 and encumbrances are forecasted at $340,000; $353,000; $316,000; $337,000 and $336,000, respectively, for June 30, 2001 through 2005. The decrease of $37,000 from fiscal year 2002 to fiscal year 2003 is due to the anticipated savings realized from the completion and occupancy of the new high school, along with the elimination of maintenance services for the New Lexington primary and intermediate buildings.

Note 6 - Reservations of Fund Balance

Textbooks and Instructional Materials

The required three percent contribution for fiscal year 2001 for the textbooks and instructional materials set aside amounted to $199,000, added to a prior year carryover of $59,000 for a total of $258,000. The set aside was partially offset by qualifying planned expenditures for textbooks, instructional materials, instructional supplies, instructional software, and instructional equipment in the amount of $130,000 for a net set aside of $128,000.

During the forecast years of 2001 through 2005, the School District does not anticipate qualifying expenditures to equal the set-aside requirement. However, annual offsets for qualifying expenditures of $130,000 are projected along with an annual three percent increase. The reserve for textbooks and instructional materials is forecasted to increase each year of the forecast through 2005.

Capital Improvements

The required three percent contribution for fiscal year 2001 for the capital improvements and maintenance set aside amounted to $199,000. The set aside is completely offset by qualifying planned expenditures for capital and permanent improvements. Therefore, no reserve is included in the forecast.

During fiscal years 2001 through 2005, the School District anticipates general fund qualifying expenditures to completely offset the set aside requirements. Therefore, the School District will have no capital improvement and maintenance set aside reserve requirement for fiscal years 2001 through 2005.

Budget Reserve

A set aside of current year revenue for a budget reserve is required for each year a school district has an increase of three percent or more in base revenues; however, a school district in a fiscal emergency is exempt from the requirement. The exemption also applies in the fiscal year a school district is released from fiscal emergency. Each year a school district has a growth of three percent or more in the base revenues, the required balance in the budget reserve increases by one percent until the five percent limit is reached.

The School District anticipates release from fiscal emergency in fiscal year 2001. At no time during the forecast does the School District anticipate meeting the criteria for a set aside of current year revenue to the budget reserve. The anticipated budget reserve for fiscal 2001 through 2005 will remain constant at $159,000, because the School District's base growth does not meet the requirement for additional amounts to be contributed from 2001 through 2005. The School District did, however, make a voluntary contribution to the budget reserve in fiscal year 2001 of $66,000.

Under Section 39 of House Bill 770, school districts are required to credit any refund from the Bureau of Worker's Compensation to the budget reserve. In 1999, the School District created the budget reserve with a refund in the amount of $93,000 related to the workers' compensation refund. In addition, the School District made a voluntary contribution of $59,000 which resulted in a total budget reserve in the amount of 152,000. During fiscal year 2000, the District, by board resolution, transferred $59,000 from the budget reserve in order to establish a textbook reserve.

Bus Purchases

During fiscal years 2001 through 2005, it is conservatively projected that the School District will receive $57,000, annually. The School District anticipates purchasing one replacement bus per year during fiscal years 2001 through 2005, using the bus purchase subsidy money received. Therefore, no reserve of fund balance is anticipated.

Note 7 - Pending Litigation

The School District has no pending litigation that will have a financial impact on the School District, according to the School District's legal counsel.

Note 8 - Levies

The School District will have a three mill levy expire in fiscal year 2004 and plans to place this levy on the November 2003 ballot for renewal. This levy will generate $293,000 annually, beginning in fiscal year 2005.
The School District has no other levies that will expire during fiscal years 2001 through 2005 and does not plan to place any new levies on the ballot during the forecast period.

Note 9 - Accounting Policies

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.

Capital Project Funds - To account for financial resources used for the acquisition or construction of major capital facilities (other that 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.

Budgetary Process

Budget - A budget of estimated cash receipts and disbursements is submitted to the Perry 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.

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.

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.

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NEW LEXINGTON CITY SCHOOL DISTRICT

PERRY 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
OCTOBER 12, 2000