



**Auditor of State
Betty Montgomery**

**Niles City School District
Trumbull County, Ohio**

**Financial Forecast
For the Fiscal Year Ending June 30, 2003**

Local Government Services Section

Niles City School District
Trumbull County

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**Auditor of State
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Board of Education
Niles City School District
100 West Street
Niles, Ohio 44446

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.03, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Niles City School District, Trumbull County, Ohio, and issued a report dated February 14, 2003. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2003 of \$2,927,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2004 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2003 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2003.

Peter R. Sorem
Chief of Local Government Services

March 10, 2003

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Board of Education
Niles City School District
100 West Street
Niles, Ohio 44446

Independent Accountant's Report

We have examined the accompanying forecasted schedules of revenues, expenditures and changes in fund balance of the general fund of the Niles City School District for the fiscal year ending June 30, 2003. The Niles City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

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

The historical financial statements for the years ended June 30, 2000 and 2001 were audited by the Auditor of State's Office and we rendered unqualified opinions on those financial statements in reports dated November 30, 2000 and November 1, 2001. We have not performed any auditing procedures since.

We have compiled the accompanying Schedule of Revenues, Expenditures and Changes in Fund Balance of the general fund of Niles City School District for the fiscal year ended June 30, 2002 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified 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.

Betty Montgomery

Betty Montgomery
Auditor of State

February 14, 2003

NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 THROUGH 2002 ACTUAL;
FOR THE FISCAL YEAR ENDING JUNE 30, 2003 FORECASTED
GENERAL FUND

	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Forecasted
Revenues				
General Property Tax (Real Estate)	\$5,618,000	\$5,811,000	\$5,668,000	\$5,537,000
Tangible Personal Property Tax	1,180,000	1,171,000	1,171,000	1,192,000
Unrestricted Grants-in-Aid	9,035,000	10,029,000	10,701,000	10,868,000
Restricted Grants-in-Aid	489,000	615,000	1,179,000	1,404,000
Property Tax Allocation	709,000	721,000	664,000	809,000
All Other Revenues	415,000	389,000	333,000	351,000
<i>Total Revenues</i>	<u>17,446,000</u>	<u>18,736,000</u>	<u>19,716,000</u>	<u>20,161,000</u>
Other Financing Sources				
Proceeds of Notes	0	0	0	1,500,000
Advances In	39,000	306,000	1,208,000	0
<i>Total Other Financing Sources</i>	<u>39,000</u>	<u>306,000</u>	<u>1,208,000</u>	<u>1,500,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>17,485,000</u>	<u>19,042,000</u>	<u>20,924,000</u>	<u>21,661,000</u>
Expenditures				
Personal Services	10,706,000	11,081,000	11,371,000	12,100,000
Employees' Retirement/Insurance Benefits	3,302,000	3,880,000	4,089,000	5,088,000
Purchased Services	2,655,000	3,731,000	4,159,000	3,958,000
Supplies and Materials	334,000	340,000	402,000	432,000
Capital Outlay	360,000	148,000	95,000	144,000
Debt Service:				
Principal- Note	0	0	0	1,500,000
Interest	0	0	0	40,000
Other Objects	149,000	233,000	215,000	215,000
<i>Total Expenditures</i>	<u>17,506,000</u>	<u>19,413,000</u>	<u>20,331,000</u>	<u>23,477,000</u>
Other Financing Uses				
Operating Transfers Out	129,000	0	0	0
Advances Out	137,000	0	295,000	1,208,000
<i>Total Other Financing Uses</i>	<u>266,000</u>	<u>0</u>	<u>295,000</u>	<u>1,208,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>17,772,000</u>	<u>19,413,000</u>	<u>20,626,000</u>	<u>24,685,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(287,000)	(371,000)	298,000	(3,024,000)
Cash Balance July 1	<u>1,215,000</u>	<u>928,000</u>	<u>557,000</u>	<u>855,000</u>
Cash Balance (Deficit) June 30	<u>928,000</u>	<u>557,000</u>	<u>855,000</u>	<u>(2,169,000)</u>
Less: Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	108,000	260,000	470,000	165,000
Reservations of Fund Balance				
Textbooks	186,000	351,000	322,000	331,000
Capital Improvements	112,000	79,000	115,000	214,000
Budget Reserve	352,000	0	0	0
Bus Purchase	61,000	41,000	72,000	48,000
DPIA	9,000	22,000	187,000	0
Parity Aid	0	0	27,000	0
<i>Total Encumbrances and Reservations of Fund Balance</i>	<u>828,000</u>	<u>753,000</u>	<u>1,193,000</u>	<u>758,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>\$100,000</u>	<u>(\$196,000)</u>	<u>(\$338,000)</u>	<u>(\$2,927,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the Niles City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of February 14, 2003, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 2 - Nature of the Presentation

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

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

	Fiscal Year 2000	Fiscal Year 2001
<u>Revenues and Other Sources</u>		
General Fund as Previously Reported	\$17,027,000	\$18,464,000
DPIA	458,000	578,000
Total Revenues and Other Sources per Forecast	17,485,000	19,042,000
<u>Expenditures and Other Uses</u>		
General Fund as Previously Reported	17,418,000	19,076,000
DPIA	450,000	565,000
Textbook Subsidy	12,000	32,000
Less Encumbrances	(108,000)	(260,000)
Total Expenditures and Other Uses per Forecast	17,772,000	19,413,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(287,000)	(371,000)
Cash Fund Balance at Beginning of Fiscal Year	1,215,000	928,000
Cash Fund Balance at End of Fiscal Year	928,000	557,000
Encumbrances at Fiscal Year End	(108,000)	(260,000)
Unencumbered Fund Balance at Fiscal Year End	\$820,000	\$297,000

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 3 - Summary of Significant Accounting Policies

A. - Basis of Accounting

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

B. - Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

Internal Service Funds - Internal Service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis.

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Fiduciary Funds

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

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

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

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

Note 4 - General Operating Assumptions

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

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real property, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Trumbull 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 and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

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

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

<u>Tax Levies</u>	<u>Year Approved</u>	<u>Last Year of Collection</u>	<u>Full Tax Rate (per \$1,000 of assessed valuation)</u>
Inside Ten Mill Limitation	n/a	n/a	\$5.70
Continuing Operating	1976	n/a	26.10
Continuing Operating	1996	n/a	4.95
Emergency	1997	2003	5.10
Total Tax Rate			<u><u>\$41.85</u></u>

The School District also has levies for bonded debt and school facilities maintenance totaling \$1.90 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$27.16 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$32.60 per \$1,000 of assessed valuation.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represent gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Trumbull County Auditor. The County had a revaluation during 2002. Based upon these estimates, the School District anticipates receiving \$5,537,000 in general property tax revenue, a decrease of \$131,000 from the prior fiscal year. This decrease is primarily due to a large amount of delinquencies based on information provided by the County Auditor. Current delinquent real estate taxes for tax year 2001 are \$202,000. Total delinquent real estate taxes for tax year 2001 are \$584,000.

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Tangible Personal Property Tax - Tangible personal property tax revenues is applied to property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues are based upon information provided by the Trumbull County Auditor. Based upon these estimates, the School District anticipates receiving \$1,192,000 in tangible personal property tax revenue during the 2003 fiscal year, an increase of \$21,000 from the previous fiscal year.

B. - Unrestricted Grants-in-Aid

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

In 2001, State law set the base cost per pupil at \$4,294 and increased the rate each year thereafter to \$4,490 for fiscal year 2002, and \$4,949 for fiscal year 2003. For fiscal year 2000, the rate was \$4,177. The cost per pupil is multiplied by the average daily membership to determine the base formula amount of State aid.

The anticipated revenue for fiscal year 2003 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$10,721,000, which represents a \$272,000 increase from the prior fiscal year. This increase is primarily due to the increase in the base cost per pupil.

Governor Bob Taft has proposed an across the board reduction in State aid to school districts to take effect before the end of the current fiscal year. The amount of this reduction, if any, has not been determined nor has any reduction been reflected in the forecast.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes are used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are to be made twice a year in February and August. The School District is anticipating \$147,000 in public utility reimbursements in fiscal year 2003, which is based on information provided by the Ohio Department of Taxation.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of an anticipated bus purchase allowance of \$26,000, which reflects a \$5,000 decrease from fiscal year 2002, a DPIA subsidy of \$852,000, which reflects a \$46,000 decrease from fiscal year 2002 and parity aid of \$526,000, which reflects an increase of \$276,000 over fiscal year 2003.

D. - Property Tax Allocation

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

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Trumbull County Auditor, is anticipated to be \$809,000, an increase of \$145,000 over fiscal year 2002. This increase is primarily due to the County having a revaluation during 2002 and the School District posting \$61,000 as revenue this fiscal year for a transaction posted to the wrong fund in fiscal year 2002.

E. - All Other Revenues

All other revenues include interest on investments, NORCAT reimbursements (Mahoning County Chemical Dependency Programs, Inc.), transportation, medicare, miscellaneous receipts and refund of prior year expenditures.

Interest is based on historical investment practices and anticipated rates during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Interest on Investments	\$62,000	\$71,000	\$9,000
NORCAT Reimbursement	85,000	85,000	0
Transportation	127,000	129,000	2,000
Medicare	42,000	40,000	(2,000)
Miscellaneous	4,000	26,000	22,000
Refund of Prior Year Expenditures	13,000	0	(13,000)
Totals	<u>\$333,000</u>	<u>\$351,000</u>	<u>\$18,000</u>

F. - Other Financing Sources

Proceeds of notes represents receipts from the issuance of tax anticipation notes for short term cash flow borrowing. The School District, along with other districts in the State, joined together and issued a one year tax anticipation note that pays interest of 2.27 percent and that matures at fiscal year end. The School District's portion of the note was \$1,500,000.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay and payments in lieu of benefits. All employees receive their compensation on a bi-weekly basis.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. The contract covers the period August 29, 2000 to August 28, 2003,

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

and allows for a four and one-half percent increase in the base salary as well as step increases from eight to ten percent in fiscal year 2003. The contract for classified staff covers the period September 1, 2000 to August 31, 2003, and also allows for a four and one-half percent increase in fiscal year 2003. Administrative salaries are set by the Board of Education.

The School District offers severance pay upon retirement to its certified and classified employees with eight years of service. Payments for certified employees are twenty-five percent of their unused sick leave up to a maximum of fifty days and all unused accumulated sick days in excess of two hundred, up to the maximum allowable at the time of retirement, paid at the rate of thirty dollars per day. Classified employees receive thirty percent of their unused sick leave up to a maximum of fifty-five days and all unused accumulated sick days in excess of two hundred paid at the rate of thirty dollars per day. Severance costs are anticipated to decrease due to the retirement of four staff members during the forecast period compared with the retirement of six staff members during fiscal year 2002.

Presented below is a comparison of salaries and wages for fiscal year 2002 and the forecast period.

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Certified Salaries	\$8,469,000	\$9,404,000	\$935,000
Classified Salaries	2,211,000	2,070,000	(141,000)
Substitute Salaries	281,000	272,000	(9,000)
Supplemental Contracts	225,000	244,000	19,000
Severance Pay	119,000	48,000	(71,000)
Other Salaries and Wages	66,000	62,000	(4,000)
Totals	<u>\$11,371,000</u>	<u>\$12,100,000</u>	<u>\$729,000</u>

B. - Employees' Retirement/Insurance Benefits

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

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

Health care costs are based on the estimated claims and administrative charges for the School District's self-insured health care program. All funds, including the general fund, are charged for the number of employees participating in the program and the type (single or family) of coverage provided to each employee. The self-insured health care program includes medical/surgical, prescription drug and dental care. The program costs are accounted for in an internal service fund. The self-insurance fund pays the claims and administrative costs.

The health care charges to the various funds were increased eleven percent, effective May, 2002. The School District anticipates a thirty five percent increase May, 2003, based on estimates from the program administrator. In addition, all funds will pay an additional monthly charge to the internal service fund because of increased claims.

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

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

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

Presented below is a comparison of fiscal year 2002 and the forecast period:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Employer's Retirement	\$1,616,000	\$1,667,000	\$51,000
Health Care/Life Insurance	2,196,000	3,163,000	967,000
Workers' Compensation	116,000	59,000	(57,000)
Medicare	146,000	182,000	36,000
Unemployment	2,000	4,000	2,000
Tuition Reimbursement	9,000	9,000	0
Administration Dues	4,000	4,000	0
Totals	\$4,089,000	\$5,088,000	\$999,000

C. - Purchased Services

Purchased service expenditures forecasted in the amount of \$3,958,000 are comprised of the following:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Professional and Technical Services	\$283,000	\$210,000	(\$73,000)
Property Services	373,000	447,000	74,000
Travel and Meeting Expenses	210,000	110,000	(100,000)
Communication Costs	52,000	58,000	6,000
Utility Services	285,000	310,000	25,000
Trade Services	121,000	21,000	(100,000)
Tuition Payments	2,829,000	2,761,000	(68,000)
Pupil Transportation	6,000	41,000	35,000
Totals	\$4,159,000	\$3,958,000	(\$201,000)

The School District is anticipating a \$201,000 decrease in purchased services for fiscal year 2003. This decrease is due primarily to the School District making a concerted effort to reduce expenditures because of its financial position. The tuition payments are for the School District students attending the Gordon D. James Career Center for vocational education.

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

D. - Supplies and Materials

Supplies and materials are comprised of the following:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$170,000	\$123,000	(\$47,000)
Operations, Maintenance and Repair	118,000	71,000	(47,000)
Textbooks	114,000	238,000	124,000
Totals	<u>\$402,000</u>	<u>\$432,000</u>	<u>\$30,000</u>

The School District is forecasting a \$30,000 increase in materials and supplies for the forecast period. This is primarily due to the School District purchasing a large amount of textbooks in the forecast year which did not occur in the previous fiscal year.

E. - Capital Outlay

The purchase or construction of property, plant and equipment that will be used in providing general governmental services is recorded as an expenditure. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements for the general government services is to report the expenditure of resources, not costs.

Capital outlay expenditures are forecasted in the amount of \$144,000. The \$49,000 increase from fiscal year 2002 is due to the School District purchasing a school bus in the amount of \$50,000 during the forecast year which did not occur in fiscal year 2002.

F. - Debt Service

General fund supported debt consists of cash flow borrowing in the amount of \$1,500,000. The School District anticipates repaying the note during the forecast period. The repayment amount will be \$1,500,000 in principal and \$40,000 in interest.

G. - Other Objects

Other object expenditures consist of dues and fees and insurance. Other object expenditures are forecasted in the amount of \$215,000. There is no change anticipated from fiscal year 2002.

H. - Operating Transfers and Advances Out

The School District is forecasting advances out in fiscal year 2003 in the amount of \$1,208,000 which is an increase of \$913,000 from fiscal year 2002. The increase is for the repayment of monies loaned to the general fund from the construction capital projects fund during fiscal year 2002.

Note 7 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an

Niles City School District
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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects for fiscal year ended June 30, 2002 were \$470,000 and are forecasted at \$165,000 for June 30, 2003. The School District is anticipating a decrease in its encumbrances because the School District has instituted cost cutting measures and is not forecasting many remaining expenditures to be encumbered at fiscal year end.

Note 8 - Reservations of Fund Balance

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

A. - Textbooks and Instructional Materials

The set aside requirement for fiscal year 2003 is \$427,000. There was a carryover of \$322,000 from fiscal year 2002. The School District will have \$418,000 in qualifying expenditures and offsets during the current fiscal year leaving a reserve balance of \$331,000.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2003 is \$427,000. There was a carryover of \$115,000 from fiscal year 2002. The School District anticipates \$328,000 in qualifying expenditures and offsets in fiscal year 2003 leaving a reserve balance of \$214,000.

C. - Bus Purchases

At June 30, 2002 the School District had \$72,000 in unspent bus monies. The School District received \$26,000 in a bus purchase allowance during fiscal year 2003. The School District will spend \$50,000 on the purchase of a bus during the current fiscal year leaving a reserve balance of \$48,000.

D. - Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2002 the School District had \$187,000 in unspent DPIA monies. The School District anticipates receiving \$852,000 in restricted DPIA monies during fiscal year 2003. The School District will spend \$1,039,000 in DPIA expenditures during the current fiscal year. Therefore, there is no reserve included for DPIA.

E. - Parity Aid

At June 30, 2002 the School District had \$27,000 in unspent parity aid monies. The School District is forecasted to receive \$526,000 in parity aid monies during fiscal year 2003. The School District will spend \$553,000 in parity aid expenditures during the current fiscal year. Therefore, there is no reserve included for parity aid.

Niles City School District
Trumbull County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 9 - Levies

The School District passed an emergency renewal levy on November 5, 2002. No other levies are expected to be placed on the ballot during the remainder of fiscal year 2003. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November 1992	Emergency	7.50 mills	5 Years	Passed
May 1995	Operating	5.80 mills	Continuing	Failed
November 1995	Operating	4.90 mills	Continuing	Failed
March 1996	Operating	5.00 mills	Continuing	Failed
November 1996	Operating	4.95 mills	Continuing	Passed
November 1997	Emergency	5.91 mills	5 Years	Passed
February 1999	Bond Issue	7.403 mills	23 Years	Failed
November 1999	Bond Issue	1.90 mills	23 Years	Passed
November 2002	Emergency	5.10 mills	5 Years	Passed

Note 10 - Pending Litigation

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

Note 11 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 12 – Niles Schools Benefits Self-Insurance Fund

The School District provides medical/surgical, prescription drug, vision and dental benefits through a self-insured program. Administrative Service Consultants, a third party administrator, processes and pays the claims. All funds make monthly payments to the self-insurance fund based on the number of employees and the type of coverage provided to each employee. Monthly charges per person for single and family participation in the program are recommended by the third party administrator. The fund purchases annual stop loss coverage for claims in excess of \$85,000 per person and \$2,800,000 for the School District as a whole. The School District anticipates the costs of claims to increase throughout the fiscal year. The monthly charges to the various funds will also increase to cover the cost of claims and administrative charges and to maintain a positive cash fund balance.



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NILES CITY SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 10, 2003**