



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Massillon City School District
Stark County

Fiscal Emergency Termination

Local Government Services Division

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

FISCAL EMERGENCY TERMINATION

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CERTIFICATION

Pursuant to a request to the Auditor of State by the Massillon City School District Financial Planning and Supervision Commission, the Auditor of State has determined that the Massillon City School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, and the Massillon City School District has met the requirements of Section 3316.16, Revised Code, for termination of the Massillon City School District Financial Planning and Supervision Commission. Therefore, the existence of the Massillon City School District Financial Planning and Supervision Commission and its role in the operation of the Massillon City School District is terminated as of April 18, 2002.

Section 3316.041, Revised Code, requires the Massillon City School District to remain in a state of fiscal watch for the duration of the repayment period of any restructured loan issued while in a state of fiscal watch. The debt, authorized under Section 3316.041, Revised Code, will mature in June of 2003.

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, this report is hereby submitted to the Massillon 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, Francis H. Cicchinelli, Mayor of the City of Massillon and Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

April 18, 2002

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**Report on Termination of the Massillon City School District
Financial Planning and Supervision Commission**

At the request of the Financial Planning and Supervision Commission (the Commission) of the Massillon City School District (the School District), Stark County, the Auditor of State has performed an analysis to determine whether this Commission and its functions should be terminated.

The Declaration of Fiscal Emergency

The Auditor of State conducted an analysis of the Massillon City School District, dated December 9, 1996 to determine whether the School District met the conditions for fiscal watch. The results of the analysis were as follows:

1. The Auditor of State certified an operating deficit for the General Fund in the amount of \$4,077,000, which exceeded eight percent on the General Fund revenues of the prior fiscal year:
2. The Massillon City School District's unencumbered cash balance for the preceding fiscal year was \$3,393, which was less than eight percent of the preceding fiscal year expenditures: and,
3. The School District had not passed a levy that would eliminate the first two conditions.

On January 6, 1997 the Auditor of State declared the Massillon Local City School District in fiscal watch. Section 3316.041, Revised Code, allows a school district in fiscal watch to restructure its loan obtained under Section 3313.483, Revised Code, for a period not to exceed ten years, subject to approval of the State Superintendent of Public Instruction. Consistent with this legislation, the Massillon City School District restructured its State Emergency Loans totaling \$5,930,189 on December 5, 1997. Final payment on the restructured debt is scheduled on June 15, 2003.

Section 3316.04, Revised Code, specifically states that a school district that has restructured or refinanced a loan under Section 3316.041, Revised Code, shall be declared to be in a state of fiscal emergency if any of the following occurs:

- An operating deficit is certified for the district under Section 3313.483, Revised Code, for any year prior to the repayment of the restructured or refinanced loan;
- The Superintendent determines, in consultation with the Auditor of State, that the school district is not satisfactorily complying with the terms of the financial plan required by this section;
- The board of education of the school district fails to submit an updated plan that is acceptable to the Superintendent under division (C) of this section.

On September 20, 1999, the Ohio Department of Education provided notification and documentation to the office of the Auditor of State indicating that the Massillon City School District had failed to submit an updated financial recovery plan that was acceptable to the State Superintendent of Public Instruction. Accordingly, the Massillon City School District was placed in fiscal emergency on September 30, 1999.

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:

**MASSILLON CITY SCHOOL DISTRICT
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1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; 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 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 are as follows:

The Financial Accounting and Reporting Systems

The Auditor of State, in accordance with Section 3316.10, Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the Massillon City School District and issued a Accounting Report, dated January 28, 2000. The report identified areas where the School District's financial accounting and reporting system were not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State. The Board of Education was required to promptly bring its existing financial accounting and reporting system into compliance with Section 117.43 of the Ohio Revised Code.

The criteria for termination of the Commission and the fiscal emergency condition includes a determination of whether an effective financial accounting and reporting system as been implemented or is in the process of being implemented, and is expected to be completed within in two years. This determination included management providing a written assessment of the issues that were identified in the Financial Accounting Report. Our responsibility is to determine, based on inquiries, observations, and a review of other financial reports, whether management has in place an effective financial accounting and reporting system, which includes the correction those issues Financial Accounting Report. A summary of management's assessment of those issues is presented below:

Governance Overview

- The School District has established an audit committee to act as an informed, vigilant, and effective overseer of the accounting, internal control, and reporting processes.

Budgetary Process

- The School District submitted and passed a resolution to accept, certify and authorize the necessary tax levies (tax millage rates) to the County Auditor on March 27, 2001.
- The School District submits the certificate of the total amount from all sources available for expenditures and balances for the fiscal year ended shortly after the School District's books are closed for the fiscal year.

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- The appropriations for the expenditures are passed prior to making the expenditures and final revisions to the appropriations are passed prior to fiscal year end. The School District has eliminated passing any inflated appropriation resolutions.
- The School District is correctly calculating House Bill 412 set-asides and has established separate cost centers within the General Fund to account for the bus purchase allowance and textbooks and instructional materials and the capital acquisition and improvements set-aside reserves.
- For fiscal year 2001, the School District had no funds where appropriations exceeded the amended official certificate of estimated revenues.
- The School District includes all required items on the certificate of the total amount from all sources available for expenditures and balances for the fiscal year ended, to prevent the amended official certificate of estimated resources from being inflated.
- The Treasurer monitors all appropriation changes to ensure that they are entered into the computer on a timely basis and to ensure that expenditures plus carryover encumbrances do not exceed total appropriations.
- The School District passes and submits the annual tax budget to the County Auditor by the deadline of January 15th.
- The School District verifies the estimated revenue reflected in their Form 4502 to the estimated revenue in the final amended official certificate of estimated resources.
- The Statement of Expenditures and Encumbrances Compared with Expenditure Authority - All Budgetary Funds for the Fiscal Year in Form 4502 submitted to the Ohio Department of Education matched total appropriations for fiscal year 2001.

In Process of Implementation

- The School District is currently requesting a final amended official certificate of estimated resources from the Stark County Auditor prior to fiscal year end and uses those amounts to make their final appropriations. The budgeted revenues are then adjusted in the School District accounting system to match the amended official certificate of estimated resources for the General Fund. Estimated resources for other funds were not kept current for the months July 31, 2000 to May 31, 2001, but were updated for the end of the year.
- The School District has contracted with Guardian Records Systems for a Guardian filing system, which will be completed in fiscal year 2002. The system will ensure that all budgetary documents for the current and two preceding years are available and readily accessible.

Not Implemented

- The School District has not completed the required certifications under Ohio Revised Code Section 5705.412.

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Revenue Activity

- All mail delivered to the Treasurer's office is being monitored for receipts and all mail is date stamped by the secretary when received.

In Process of Implementation

- All employees in the Treasurer's office are being cross-trained to enter receipts into the computer.

Purchasing Process

- The Treasurer has implemented a policy which prohibits the authorization and encumbrance of purchase orders if the appropriations are not sufficient to cover the amount of the purchase order.
- The Board of Education passed a resolution on March 30, 2000 that establishes some guidelines for requisitions and purchase orders. The resolution also includes specific disciplinary actions that will be enforced if these procedures are not strictly adhered to.
- Purchase orders are entered into the computer on a daily basis as they are approved, so that current budget and actual data is available to the Treasurer's staff, department heads and others.

Cash Disbursements

- The student activity, cafeteria, and auxiliary monies have been combined into one bank account to eliminate additional record keeping and opportunities for error.
- Manual checks are rarely used. When used, they are for emergency purposes only and are entered promptly into the system.
- The School District is matching the invoices to the purchase orders and enters them into the computer weekly, not daily, because of the low volume of checks processed.

In Process of Implementation

- Although there is no written policy, invoices are paid within thirty days of the invoice date unless a discount can be taken. The School District plans to develop a policy.
- The School District has contracted with OSBA for the preparation of written procedures and job description for the Accounts Payable Clerk position.

Payroll Process

- The School District is online with the bank, so a stop payment is issued immediately if a check is lost or reissued for any reason.
- The Treasurer has established formal step-by-step procedures and guidelines that are followed by the Payroll Clerk so, if the need arises, someone who is not trained can step into this position.

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- The Accounts Payable Clerk/Assistant Treasurer reconciles the payroll account monthly.
- The postage meter automatically seals the window envelopes containing employee pay checks to guard against theft and insure privacy.

Debt Activity

- The notes to the General Purpose Financial Statements show the correct amounts for debt. The School District has ensured that the notes to the General Purpose Financial Statements agree with the liabilities section of the balance sheet.

Not Implemented

- The School District has not properly reflected debt in the Form 4502 filed with the Ohio Department of Education; Statement J, Schedule of Indebtedness - Bonds.

Fixed Assets and Supplies Inventories

- The School District has designed individual acquisition, disposal, and transfer forms, that are to be sent to the Building and Grounds office when items are moved.
- New policies and procedures for inventory have been established.
- The School District has contacted the Auditor of State's office to obtain a Fixed Assets Manual to use as a guideline in maintaining their fixed assets.
- The supplies inventory worksheets now indicate who took the inventory through a signature line on the form. Descriptions of the supplies are also included.
- Forms used for inventory have been standardized and are distributed to all buildings.

In Process of Implementation

- The School District has contracted with Valuation Engineers, Inc. to compile an inventory listing and appraisal of fixed assets with an annual revaluation. The contract also includes a conversion of this data to the State of Ohio inventory software program.

Not Implemented

- The School District does not have written policies and procedures for fixed assets and supplies inventory, which should include written definitions of donated assets, salvage values, and private property.

Cash Management and Investing

- Monthly bank reconciliations are being completed on a timely basis by the Assistant Treasurer and are being reviewed and approved by the Treasurer.

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- The School District has consolidated separate bank accounts into the general bank account.
- The School District maintains a comprehensive list in the Treasurer's office to support the amount shown as petty cash on the School District's Form 4502 submitted to the Ohio Department of Education.

Not Implemented

- The School District has not established an interest allocation policy. The School District distributes all interest to the General Fund, except for the auxiliary services fund, which receives interest based on an average determined by the Treasurer.
- The petty cash and change fund policies have not been revised to include the offices, departments, or buildings that have petty cash or change funds and how the money may be expended.

Financial Reporting

- A grant coordinator has been hired to oversee all grant activity and assist the various individuals who are still obtaining, administering, controlling, and submitting grant reports.
- Fringe benefit expenditures are being charged directly to the grant funds, when appropriate.
- The School District no longer remits money to the granting agency from General Fund money.
- The Treasurer is recording reimbursements to the General Fund as a reduction of the expenditure when they occur within the same fiscal year. When not received within the same fiscal year, the reimbursement to the General Fund is recorded as a reimbursement of a prior year expense.
- The Treasurer's staff is being provided with cross-training for all duties and positions within the Treasurer's office by the Stark Portage Area Computer Consortium, so they are able to perform the duties of an absent staff member.
- The School District files its GAAP basis annual financial report in a timely manner.

In Process of Implementation

- The School District is in the process of establishing a comprehensive accounting policies and procedures manual covering all aspects and functions of the Treasurer's office and how other offices and departments account for receipts, expenditures, supplies, and property of the School District.

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Management Letter

Not Implemented

- Budgetary violations of Section 5705.39 of the Ohio Revised Code were found in several special revenue funds at fiscal year end for 2000 and 2001.

The Fiscal Emergency Conditions

The Auditor of State shall issue an order, under Section 3316.03, Revised Code, declaring a School District to be in a state of fiscal emergency if the Auditor of State determines a School District meets any of the criteria for fiscal emergency. The criteria are as follows:

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the School District's General Fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.
2. The School District board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor of State's declaration, or an updated plan no later than the anniversary of the date on which the first such plan was approved.
3. The Superintendent of Public Instruction has reported to the Auditor of State that the district is not materially complying with the provisions of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined the declaration of a state of fiscal emergency necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.
4. 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 of the Ohio Revised Code; and,
5. The Auditor of State may issue an order declaring a School District to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the School District's General Fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

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

1. The School District no longer has an operating deficit in the General Fund.
2. The School District has submitted and received the approval of the State Superintendent of Public Instruction of its financial plans.

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3. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.

The Financial Recovery Plan

We obtained a copy of the latest financial recovery plan of the School District, dated December 3, 2001, and interviewed the Treasurer of the School District and received information from the Chairperson of the Financial Planning and Supervision Commission. The key provisions of the financial plan are as follows:

1. Passage of a 9.7 mill emergency operating levy on November 2, 1999;
2. Upcoming renewal of a \$2,000,000 five-year emergency operating levy that expires on December 31, 2001;
3. Collective bargaining with all four units of the School District's union representation;
4. Reduction of operating expenses;
5. Reduction of personnel expenditures; and
6. Proper accounting procedures.

Actions taken to achieve the provisions of the plan include the following:

1. Passage of a 9.7 mill Emergency Operating Levy and renewal of a \$2,000,000 Emergency Operating Levy in November 1999 and May 2001, respectively, as shown below:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>
November 1999	Emergency Operating Levy	9.7 Mills	5 Years
May 2001	Emergency Operating Levy	5.1 Mills	5 Years

2. Personnel reductions:
 - In fiscal year 2000, the School District saved an estimated \$1,000,000 through the following reductions:
 - Five teachers
 - Three building principals
 - One custodian
 - One educational aide
 - Two central office administrators
 - One secretary

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- In fiscal year 2001, an estimated \$830,000 in reductions/savings was made, including:
 - Twelve employees not replaced, including seven teachers, one administrator and four classified staff members;
 - Hired 40 replacement employees with 0-2 years of experience;
 - Reduced four buses from regular bus fleet;
 - Re-employed three positions, including one administrative assistant, one assistant superintendent and one high school assistant principal; and,
 - Added three positions, including one middle school curriculum specialist, one grant/entitlement administrator (State grant funds), and one assistant treasurer.
- 3. Reinstated the Vocational Marketing program at Washington High School, but transformed the program to a Tech Prep E-Commerce Program. The School District will receive 1.6 units of vocational funding with a potential of \$30,000 of Tech Prep funding.

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2002 through 2006, 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 unencumbered and unreserved General Fund balance for the forecast period. The Auditor of State, in a report dated February 1, 2002, 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 School District has met the major objectives of the Financial Recovery Plan; 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".

**MASSILLON CITY SCHOOL DISTRICT
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**Report on Termination of the Massillon City School District
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Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the Massillon City School District and its functions may be terminated.

Section 3316.041, Revised Code, requires the Massillon City School District to remain in a state of fiscal watch for the duration of the repayment period of any restructured loan issued while in a state of fiscal watch. The debt, authorized under Section 3316.041, Revised Code, will mature in June of 2003.

It is understood that this report's determination is for the use of the Massillon 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, Francis H. Cicchinelli, Mayor of Massillon, 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.

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APPENDIX A

**Massillon City School District
Stark County**

Financial Forecast

For the Fiscal Years Ending June 30, 2002 Through 2006

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**Massillon Local School District
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Board of Education
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Independent Accountant's Report

We have examined the accompanying forecasted schedule of revenues, expenditures, and changes in fund balance of the General Fund of the Massillon City School District for the fiscal years ending June 30, 2002 through 2006. The Massillon 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 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 accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for managements 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 financial statements for the years ended June 30, 1999 and 2000 were audited by other accountants and they rendered an unqualified opinion on those financial statements dated June 26, 2000 and March 26, 2001, respectively. The financial statements for the year ended June 30, 2001 were audited by the Auditor of State's office and we rendered an unqualified opinion on those financial statements dated December 3, 2001. We have not performed any auditing procedures since.

JIM PETRO
Auditor of State

February 1, 2002

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1999, 2000 AND 2001 ACTUAL;
FOR THE FISCAL YEARS ENDING JUNE 30, 2002 THROUGH 2006 FORECASTED
GENERAL FUND

	Fiscal Year 1999 Actual	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Forecasted
Revenues				
General Property Tax (Real Estate)	\$7,849,000	\$9,536,000	\$9,781,000	\$9,983,000
Tangible Personal Property Tax	3,443,000	2,745,000	3,596,000	3,822,000
Income Tax	1,938,000	2,659,000	2,722,000	2,100,000
Unrestricted Grants-in-Aid	14,030,000	13,804,000	14,770,000	15,651,000
Restricted Grants-in-Aid	897,000	957,000	1,058,000	1,665,000
Property Tax Allocation	997,000	1,019,000	1,010,000	1,209,000
All Other Revenues	861,000	1,194,000	1,113,000	1,133,000
<i>Total Revenues</i>	<u>30,015,000</u>	<u>31,914,000</u>	<u>34,050,000</u>	<u>35,563,000</u>
Other Financing Sources				
Proceeds from Sale of Notes	1,600,000	4,877,000	0	0
Solvency Assistance Advance	0	3,316,000	0	0
Advances In	602,000	243,000	70,000	16,000
<i>Total Other Financing Sources</i>	<u>2,202,000</u>	<u>8,436,000</u>	<u>70,000</u>	<u>16,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>32,217,000</u>	<u>40,350,000</u>	<u>34,120,000</u>	<u>35,579,000</u>
Expenditures				
Personal Services	16,801,000	16,947,000	16,010,000	18,060,000
Employees' Retirement/Insurance Benefits	6,562,000	8,683,000	6,176,000	6,133,000
Purchased Services	2,104,000	2,262,000	3,292,000	5,179,000
Supplies and Materials	1,157,000	541,000	1,012,000	1,207,000
Capital Outlay	122,000	66,000	525,000	306,000
Debt Service:				
Principal-Notes	2,742,000	5,934,000	633,000	638,000
Principal-State Loans	1,083,000	1,387,000	1,439,000	1,492,000
Principal-Solvency Assistance Advance	0	0	1,658,000	1,658,000
Interest and Fiscal Charges	415,000	629,000	235,000	146,000
Other Objects	241,000	397,000	554,000	436,000
<i>Total Expenditures</i>	<u>31,227,000</u>	<u>36,846,000</u>	<u>31,534,000</u>	<u>35,255,000</u>
Other Financing Uses				
Operating Transfers Out	75,000	39,000	281,000	0
Advances Out	163,000	271,000	16,000	75,000
<i>Total Other Financing Uses</i>	<u>238,000</u>	<u>310,000</u>	<u>297,000</u>	<u>75,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>31,465,000</u>	<u>37,156,000</u>	<u>31,831,000</u>	<u>35,330,000</u>
<i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i>	752,000	3,194,000	2,289,000	249,000
<i>Cash Balance July 1</i>	121,000	873,000	3,780,000	6,069,000
<i>Adjustment to Cash</i>	<u>0</u>	<u>(287,000)</u>	<u>0</u>	<u>0</u>
<i>Cash Balance June 30</i>	873,000	3,780,000	6,069,000	6,318,000
<i>Less Encumbrances and Reserves:</i>				
<i>Actual/Estimated Encumbrances June 30</i>	234,000	696,000	481,000	655,000
Reservations of Fund Balance				
Textbooks and Instructional Materials	40,000	83,000	89,000	95,000
Capital Improvements and Maintenance	158,000	83,000	0	0
Budget Reserve	260,000	260,000	213,000	0
DPIA	193,000	112,000	130,000	130,000
Bus Purchases	87,000	149,000	0	0
<i>Total Reservations of Fund Balance</i>	<u>738,000</u>	<u>687,000</u>	<u>432,000</u>	<u>225,000</u>
Revenue from Renewal Levy				
Property Tax	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Unencumbered/Unreserved Fund Balance (Deficit) June 30</i>	<u>(\$99,000)</u>	<u>\$2,397,000</u>	<u>\$5,156,000</u>	<u>\$5,438,000</u>

See accompanying summary of significant forecast assumptions and accounting policies.

Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted	Fiscal Year 2005 Forecasted	Fiscal Year 2006 Forecasted
\$10,282,000	\$10,590,000	\$9,157,000	\$7,681,000
3,937,000	4,055,000	4,176,000	4,302,000
0	0	0	0
15,808,000	15,966,000	16,126,000	16,287,000
2,059,000	2,454,000	2,850,000	3,248,000
1,245,000	1,282,000	1,133,000	986,000
1,166,000	1,201,000	1,237,000	1,274,000
<u>34,497,000</u>	<u>35,548,000</u>	<u>34,679,000</u>	<u>33,778,000</u>
0	0	0	0
0	0	0	0
75,000	75,000	75,000	75,000
<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>
<u>34,572,000</u>	<u>35,623,000</u>	<u>34,754,000</u>	<u>33,853,000</u>
19,144,000	20,292,000	21,510,000	22,800,000
6,409,000	6,698,000	7,003,000	7,322,000
4,819,000	4,964,000	5,113,000	5,266,000
1,243,000	1,280,000	1,318,000	1,358,000
315,000	324,000	334,000	344,000
0	0	0	0
1,548,000	255,000	255,000	255,000
0	0	0	0
61,000	0	0	0
449,000	462,000	476,000	490,000
<u>33,988,000</u>	<u>34,275,000</u>	<u>36,009,000</u>	<u>37,835,000</u>
0	0	0	0
75,000	75,000	75,000	75,000
<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>
<u>34,063,000</u>	<u>34,350,000</u>	<u>36,084,000</u>	<u>37,910,000</u>
509,000	1,273,000	(1,330,000)	(4,057,000)
6,318,000	6,827,000	8,100,000	6,770,000
0	0	0	0
6,827,000	8,100,000	6,770,000	2,713,000
600,000	600,000	600,000	600,000
102,000	109,000	117,000	125,000
0	0	0	0
0	0	0	0
130,000	130,000	130,000	130,000
0	0	0	0
<u>232,000</u>	<u>239,000</u>	<u>247,000</u>	<u>255,000</u>
0	0	1,700,000	3,400,000
<u>\$5,995,000</u>	<u>\$7,261,000</u>	<u>\$7,623,000</u>	<u>\$6,958,000</u>

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the Massillon Local 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 1, 2002, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

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 requires 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 disadvantaged pupil impact aid (DPIA), textbook subsidy funds and the activity of the debt service fund related to the General Fund supported debt. The inclusion of this activity has generated differences from the audited financial statements for the fiscal years ended June 30, 1999, 2000 and 2001. These differences are as follows:

	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>
<u>Revenues and Other Sources</u>			
General Fund as Previously Reported	\$27,327,000	\$31,394,000	\$30,630,000
DPIA	764,000	957,000	1,017,000
Textbook Subsidy	67,000	0	0
Debt Service Activity Related to General Fund Supported Debt	4,059,000	7,999,000	2,473,000
Total Revenues and Other Sources per Forecast	<u>32,217,000</u>	<u>40,350,000</u>	<u>34,120,000</u>
<u>Expenditures and Other Uses</u>			
General Fund as Previously Reported	26,990,000	28,967,000	28,328,000
DPIA	583,000	886,000	999,000
Textbook Subsidy	67,000	0	0
Debt Service Activity Related to General Fund Supported Debt	4,059,000	7,999,000	2,985,000
Less Encumbrances	<u>(234,000)</u>	<u>(696,000)</u>	<u>(481,000)</u>
Total Expenditures and Other Uses per Forecast	<u>\$31,465,000</u>	<u>\$37,156,000</u>	<u>\$31,831,000</u>
			(continued)

**MASSILLON CITY SCHOOL DISTRICT
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For the Fiscal Years Ending June 30, 2002 through 2006**

	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001
Excess of Revenues and Other Sources Over Expenditures and Other Uses	\$752,000	\$3,194,000	\$2,289,000
Cash Fund Balance at Beginning of Fiscal Year	121,000	873,000	3,780,000
Adjustment to Beginning Cash	0	(287,000)	0
Cash Fund Balance at End of Fiscal Year	873,000	3,780,000	6,069,000
Encumbrances at Fiscal Year End	(234,000)	(696,000)	(481,000)
Unencumbered Fund Balance at Fiscal Year End	<u>\$639,000</u>	<u>\$3,084,000</u>	<u>\$5,588,000</u>

Note 3 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts and disbursements which is consistent with the 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 measurable and available, 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.

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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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 Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

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

Proprietary Funds

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

Internal Service Funds - The internal service funds account for the services provided by one department to other departments of the School District on a cost-reimbursement basis.

Fiduciary Funds

Agency Funds - 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

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund, function, and object level within the General Fund and at the fund level for all other fund types. 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 Stark 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

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

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

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

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

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

Property taxes are levied and collected on a calendar year basis. Settlements that occur in the second half of the year are recorded as revenue in next fiscal year. New and/or expiring levies result in one-half of the annual revenue being recorded in the first and last year of collection. The School District plans to renew the 9.7 mill levy, which expires in December 2004. The renewal proceeds are presented at the bottom of the forecast, separate from regular tax revenue, since there is no assurance the levy will pass.

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

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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Tax Levies	Year Approved	Last year of Collection	Full Tax Rate (Mills)
Inside Ten Mill Limitation	n/a	n/a	\$4.10
Operating	1969	continuing	27.80
Emergency	1999	2004	9.70
Emergency	2001	2006	5.10
Total Tax Rate			<u>\$46.70</u>

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amount shown in the revenue section of the forecast schedules represent gross property tax revenue. The forecasted general property tax revenue is based upon actual receipts for fiscal year 2002 and information provided by the Stark County Auditor. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account. Based upon this information, the School District anticipates receiving \$9,983,000 in real estate tax revenue in fiscal year 2002, a \$202,000 increase from fiscal year 2001 due to new property tax values and the renewal of the existing \$2,000,000 five-year operating levy in May 2001.

The amounts forecasted for fiscal years 2003 through 2006 are based on information provided by the Stark County Auditor which includes a full year of collections of the new property tax in fiscal year 2002, and slight increases in fiscal years 2003 through 2006 due to new construction and the triennial update for property valuations. These increases will be offset by decreases for fiscal years 2005 and 2006 which are the result of the expiration of the 1999, 9.7 mill emergency levy, in December 2004. The District will make every effort to renew this levy.

The School District has assumed in the forecast that they will not be materially affected by Senate Bill 3, as amended by Senate Bill 287, with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). The Ohio Department of Taxation estimated for the forecasted period a decline of approximately \$111,000 in property tax revenue each year. The School District will be reimbursed the full amount of the loss which is recorded under unrestricted grants-in-aid revenue.

Tangible Personal Property Tax - Tangible personal property tax revenues are generated from the property used in business and a portion of the public utility personal property tax revenue. As with general property taxes, tangible personal property tax and public utility personal property tax revenues are based upon information provided by the Stark County Auditor. Based upon these estimates, the School District anticipates receiving \$3,822,000 in tangible personal property tax revenue for fiscal year 2002 which is a \$226,000 increase from the amount received in fiscal year 2001. The increase is due to continuing economic development in the area. Fiscal year 2003 through 2006 tangible personal property tax revenues are anticipated to increase based on the continuing economic development growth in the area.

B. - Income Tax

The School District obtained voter approval for a .75 percent income tax levy in May 1997, to be collected through 2001. The School District will continue to receive revenue through April of 2002. The School District has no plans to renew this tax. Income tax revenues are projected at \$2,100,000, a decrease of \$622,000 over fiscal year 2001, based on collection information provided by the State Department of Taxation.

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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C. - Unrestricted Grants-in-Aid

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

In 2002, State law set the base cost per pupil at \$4,814 and increased the rate each year thereafter, to \$4,949 for fiscal year 2003, \$5,088 for fiscal year 2004, \$5,230 for fiscal year 2005, and \$5,376 for fiscal year 2006.

The anticipated revenue for fiscal year 2002 of \$15,651,000 is based on current estimates provided by the Ohio Department of Education. The estimated increase of \$881,000 is due to changes in formula aid and categorical funding levels. For fiscal years 2003 through 2006, the School District conservatively anticipates unrestricted grants-in-aid to increase one percent each year based on changes in property valuations and ADM.

Beginning in tax year 2001, there will be significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes will be used to reimburse school districts for property tax revenue loss. Reimbursements are to be made twice a year starting in February, 2002. The School District is anticipating \$111,000 in public utility reimbursements throughout the forecast period, which are based on information provided by the Ohio Department of Taxation.

D. - Restricted Grants-in-Aid

Restricted grants-in-aid for fiscal year 2002 consists of disadvantaged pupil impact aid (DPIA) and a bus purchase allowance in the amount of \$1,270,000, and \$41,000, respectively. The School District anticipates these resources to increase in fiscal year 2003 and remain constant through fiscal year 2006.

The School District will receive 20 percent of their full parity aid in fiscal year 2002, which is approximately \$354,000. State law increases the parity aid distribution by 20 percent each year with full distribution of 100 percent in fiscal year 2006.

E. - Property Tax Allocation

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

Property tax allocation revenue, based on information from the Stark County Auditor for fiscal year 2002, is anticipated to increase by \$199,000 over the prior fiscal year.

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Years Ending June 30, 2002 through 2006**

The property tax allocation is forecasted to increase slightly in fiscal years 2003 and 2004 in direct proportion to the real property tax revenues. The property tax allocation for fiscal years 2005 and 2006 is anticipated to decrease due to the expiration of the 7.9 mill emergency levy.

F. - All Other Revenues

All other revenues include tuition, classroom fees, transportation, earnings on investments, miscellaneous receipts from local sources, sale of assets and compensation for lost books. These revenues are forecasted at \$1,133,000 for fiscal year 2002, an increase of \$20,000. For fiscal years 2003 through 2006 the School District anticipates a three percent increase each year, due to inflation.

The School District pools cash from all funds for investment purposes. All interest for the School District is allocated to the General Fund, except for the auxiliary services fund which receives interest based on an average determined by the Treasurer.

G. - Other Financing Sources

Proceeds from Sale of Notes - During fiscal year 2000, the School District issued \$4,877,000 in tax anticipation notes at an interest rate of 4.88 percent. The notes were repaid during the same fiscal year. The School District does not anticipate issuing any notes during the forecast period.

Solvency Assistance Advance - During fiscal year 2000, the School District received \$3,316,000 as a solvency assistance advance from the State. The advance will be repaid over a two-year period from State foundation revenue, with the final payment in June, 2002.

Advances In - Advances in represents amounts loaned to other funds in the current or prior fiscal year which are being repaid to the General Fund. The General Fund will receive \$16,000 in fiscal year 2002 from various special revenue grant funds. For fiscal years 2003 through 2006, the School District is projecting annual amounts of \$75,000 to be repaid by the grant funds.

Note 6 - Significant Assumptions For Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified and classified staff, supplemental contracts, substitutes, overtime, severance pay, board members' compensation, and student workers. All employees receive their compensation on a bi-weekly basis. The certified, classified, and administrative staff levels are expected to remain constant throughout the forecast period, except for fiscal year 2002 when staffing levels were increased.

Certified (teacher) staff salaries are based on a negotiated contract which includes a three percent base and three percent step increases. The contract covers the period of January 1, 2000 through July 1, 2002. Classified staff salaries are based on a negotiated contract which also includes a three percent base and three percent step increases. The contract covers the period from January 1, 2000 through July 1, 2003. Secretaries and custodians each have negotiated contracts which cover the period from July 1, 2000 through June 30, 2003. Administrative salaries are set by the Board of Education.

**MASSILLON CITY SCHOOL DISTRICT
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The School District offers severance pay to its employees of up to one-fourth of the accumulated sick leave at the time of retirement at their current per diem rate. The School District, based on the age and years of service of the staff, does not anticipate any significant severance for the forecast period.

The personal services expenditure of \$18,060,000 for fiscal year 2002 is an increase of \$2,050,000 from fiscal year 2001. This increase in salaries includes step and base increases for all employees.

Fiscal years 2003 through 2006 are based on anticipated trends of the School District. It is anticipated that the Board of Education will continue with the terms of the current union contract until a new one is in place. Each fiscal year's forecasted expenditures for personal services allows for base, step and educational increases and increases anticipated under future negotiated contracts.

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 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.

The School District offered an Early Retirement Incentive Program (ERI) plan in successive years. Fiscal year 2000 and 2001 included payments of \$1,613,000 and \$688,000 under the plan. No further ERI plans are anticipated during the forecast period.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, the monthly premiums, and a three percent increase each year during the forecast period.

Medicare benefits are based on the employers' rate of 1.45 percent and the payroll costs for contributing staff. The School District currently participates in the State Workers' Compensation system, which is based on the School District's rate and the actual salaries for the premium period.

Employee retirement and insurance benefits are forecasted at \$6,133,000 for fiscal year 2002, a \$43,000 decrease from fiscal year 2001. This decrease is due to the fact that although most benefits rose in cost, there were no more ERI payments made in fiscal year 2002. The anticipated expenditures for fiscal years 2003 through 2006, will increase due to salary increases and associated benefits cost.

C. - Purchased Services

Purchased service expenditures include professional services, property services, travel, communications utility services, printing, and tuition. Purchased services increased in fiscal years 2000 and 2001 due to contract negotiations and various building improvements, respectively. The School District is anticipating a \$1,887,000 increase in purchased services for fiscal year 2002. This increase is primarily due to tuition payments to other school districts and a \$500,000 one time expenditure for swimming pool repairs.

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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The expenditures for fiscal years 2003 through 2006 are anticipated to increase three percent each year, due to the anticipated needs of the School District and inflation.

D. - Supplies and Materials

Expenditures for supplies and materials include general and office supplies, textbooks, library books, periodicals, food related supplies, maintenance materials, supplies for maintenance, and other supplies. Fiscal year 2000 expenditures were significantly reduced because of the fiscal condition of the School District and increased in fiscal year 2001 due to the School District's needs to replenish supplies and materials. Fiscal year 2002 expenditures for supplies and materials are expected to increase by \$195,000 over fiscal year 2001, due to an increase in supplies for both the maintenance of buildings and buses. Fiscal years 2003 through 2006 will see increases approximating three percent annually for textbooks, instructional materials and other expenditures for non-instructional items.

E. - Capital Outlay

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

Capital outlay expenditures are forecasted to be in the amount of \$306,000 for fiscal year 2002. The expenditures include various types of school equipment, school buses, and replacement equipment. These expenditures are anticipated to increase during the remainder of the forecast period by three percent, due to inflation.

F. - Debt Service

The debt issues outstanding and retired during the forecast period with General Fund resources are as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
State Vocational School Loan - 1991	0.00%	\$4,147,027	September 30 , 2006
Tax Anticipation Note - 1996	4.56	2,000,000	December 1, 2001
Tax Anticipation Note - 1997	4.45	950,000	December 1, 2001
State Loan - 1997	4.44	5,190,189	June 30 , 2003
Solvency Assistance Advance - 2000	0.00	3,316,000	June 15, 2002

**MASSILLON CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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The principal and interest requirements for the outstanding debt to be paid from the General Fund revenues are as follows:

Year	State Vocational School Loan	Tax Anticipation Notes	State Loan	Solvency Assistance Advance	Total Principal	Interest
FY 2002	\$255,000	\$638,000	\$1,237,000	\$1,658,000	\$3,788,000	\$146,000
FY 2003	255,000	0	1,293,000	0	1,548,000	61,000
FY 2004	255,000	0	0	0	255,000	0
FY 2005	255,000	0	0	0	255,000	0
FY 2006	255,000	0	0	0	255,000	0

The State vocational school loan and the tax anticipation notes are paid from General Fund revenues, the State loans and the solvency assistance advance are paid from State foundation revenues.

G. - Other Objects

This account includes dues, fees, liability insurance and other miscellaneous goods and services not otherwise classified in another account. For fiscal year 2002, the School District is projecting a \$118,000 decrease in this area. In fiscal year 2001, an adjustment for \$144,000 was made to correct a prior year error. These expenditures are anticipated to increase three percent annually for the remainder of the forecast period.

H. - Operating Transfers and Advances Out

The School District expects to advance \$75,000 annually to other grant funds during the forecast period. No transfers out are anticipated during any of the forecast years.

Note 7 - Encumbrances

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

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects expenditures for fiscal year ended June 30, 2001 were \$481,000 and are forecasted at \$655,000 for June 30, 2002. Encumbrances are forecasted to remain constant at \$600,000 during fiscal years 2003 through 2006 and include the State Teachers' Retirement System Advance since the School District has elected to continue paying the STRS advance as it has in the past.

**MASSILLON CITY SCHOOL DISTRICT
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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 School District is required to set aside annually three percent of certain revenues for the purchase of textbooks and instructional materials. The School District had a carry over balance of \$89,000. The set aside amount for fiscal year 2002 is \$785,000. Qualifying expenditures are anticipated to be in the amount of \$772,000. The amount not spent is carried forward increasing the textbook and instructional material reserve by \$6,000 to \$95,000 at the end of fiscal year 2002.

For fiscal years 2003 through 2006, the annual qualifying offsets and expenditures will not exceed the three percent contribution. Therefore, the textbook and instructional material reserve requirement is projected at \$102,000 for fiscal year 2003, \$109,000 for fiscal year 2004, \$117,000 for fiscal year 2005, and \$125,000 for fiscal year 2006.

B. - Capital Acquisition and Improvements

The School District is also required to set aside annually three percent of certain revenues for capital acquisition and improvements. The set aside amount for fiscal year 2002 is \$785,000. Expenditures are anticipated to exceed the carryover balance and the set aside requirement; therefore, no reserve is carried forward.

For fiscal years 2003 through 2006, the annual expenditures will exceed the three percent contribution; therefore, the School District will not have a reserve.

C. - Budget Reserve

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish and appropriate money for budget stabilization. The monies on hand in the School District's budget reserve may, at the discretion of the Board, be returned to the School District's General Fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve set aside. The School District passed a resolution on November 28, 2001 to spend the existing balance in the budget reserve during the first year of the forecast period for the purpose of improving technology for educational purposes.

D. - Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2001, the School District had \$130,000 in unspent DPIA monies. In future years the School District anticipates spending all revenues on DPIA salaries and benefits, therefore the reserve will remain the same and be carried forward.

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Note 9 - Pending Litigation

The Massillon City School District is party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the financial forecast.

Note 10 - Levies

The School District does not plan to place any levies on the ballot during fiscal year 2002. In the past twelve years the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November 1990	Emergency Renewal	5.1 mills	5 Years	Passed
November 1992	Emergency Additional	5.9 mills	4 Years	Failed
February 1993	Emergency Additional	7.9 mills	5 Years	Failed
May 1993	Emergency Additional	7.9 mills	5 Years	Passed
March 1996	Emergency Renewal	5.1 mills	5 Years	Passed
November 1996	Income Tax	.075 %	4 Years	Failed
May 1997	Income Tax	.075 %	4 Years	Passed
May 1998	Emergency Renewal	7.9 mills	5 Years	Failed
November 1998	Capital Improvement	4.3 mills	Continuing	Failed
August 1999	Emergency Additional	9.7 mills	5 Years	Failed
November 1999	Emergency Additional	9.7 mills	5 Years	Passed
May 2001	Emergency Renewal	5.1 mills	5 Years	Passed

Note 11 - State School Funding Decision

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

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

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 1, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts fo the decision

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changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

As of February 1, 2002, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.



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MASSILLON CITY SCHOOL DISTRICT

STARK 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
APRIL 18, 2002**