

**ADAMS COUNTY/OHIO VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE FIVE-YEAR FORECAST**

Nature of the Forecast

This financial forecast presents the expected revenues, expenditures and operating cash balance of the Adams County/Ohio Valley School District's General Fund, State Fiscal Stabilization Fund, ED Jobs Fund and the General Fund portion of the Debt Service Fund. The forecast reflects the Board of Education's judgment of the expected financial conditions and its expected course of action as of the date of the forecast. The assumptions used in preparation of the forecast are management's best estimate of future financial conditions. The assumptions described below are those that are material to the forecast. Differences between forecasted and actual results usually occur because events and circumstances frequently do not occur as expected, and those differences may be significant.

REVENUES

Property Taxes (Lines 1.010 and 1.020)

Property tax revenues for the General Fund are generated from 26.00 gross operating mills, which consists of 3.30 inside mills and 22.70 outside mills. The outside millage consists of a 17.00 mill levy approved in 1969 and a 5.70 mill levy approved in 1998, both for a continuing period of years. In 2007, the Board of Education voted to convert a half-mill of inside mills to permanent improvement.

General Property Tax – Real Estate (Line 1.010) includes all real estate property taxes, including agricultural/residential and commercial/industrial real estate. The District's last revaluation was in tax year 2010 (calendar year 2011 collections), and while some CAUV values increased considerably, residential property values experienced a decline as in many counties within the state.

Tangible Personal Property Tax (Line 1.020) includes business tangible personal property taxes and public utility personal property taxes. Business tangible personal property taxes are being phased out as a result of House Bill 66 passed in June of 2005. Business tangible values will be reduced by 25% each year starting in fiscal year 2007, until fully eliminated in fiscal year 2010. House Bill 1 passed in July of 2009 extended TPP payments to 2013. However the passage of HB 153 eliminates all reimbursements for the Adams County/Ohio Valley Local School District and we should be receiving our final collections on public utility personal property taxes for the 2012 fiscal year.

Unrestricted Grants-in-Aid (Line 1.035)

The State funding for schools is based upon several factors all of which are subject to deliberations and approval of the Ohio General Assembly. The recent passage of HB 153 included a "bridge" formula to assist districts with bridging the gap between losses of State Fiscal Stabilization funds and other stimulus grants. This one year formula was based primarily on a district's valuation per pupil, which was a great help to districts in low wealth areas such as Adams County/Ohio Valley. The Governor's Office has indicated that a new funding formal may be introduced for the second half of the biennium budget. At this time no details about the formula have been released so there is no way to accurately calculate what State funding will be for Fiscal Year 13 and beyond. A significant change in

the proposed funding for the Adams County/Ohio Valley School District will have a materially adverse effect on this forecast. Figures for 2014 and beyond are presented with a slight reduction in State funding to illustrate the slow loss of ADM that the district seems to be experiencing.

Restricted Grants-in-Aid (Line 1.040)

Restricted Grants-in-Aid includes career-technical education weighted funding all received from the State; therefore, this line item has been flat funded in response to the proposed budget currently with the Senate. Projections beyond fiscal year 2013 are completely speculative.

Restricted Federal Grants-in-Aid-SFSF (Line 1.045)

In 2009, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. State Fiscal Stabilization Funds (SFSF) was awarded for fiscal years 2010 and 2011.

SFSF has not been reauthorized; therefore, SFSF revenues have not been included in this forecast beyond fiscal year 2011. There is no reasonable basis to assume that the State of Ohio will increase State Funding for schools to cover/make up the amount of the SFSF funds distributed to school districts.

In 2010, the Education Jobs Fund was awarded to all Ohio school districts to be utilized for compensation and benefits and other expenses such as support services necessary to train existing employees, recall or rehire former employees, and to hire new employees. The Adams County/Ohio Valley Local School District Board of Education and Administration have decided at this time to use all of these funds in fiscal year 2012 in an effort to minimize the funding shortfall projected to occur with the loss of SFSF.

Property Tax Allocation (Line 1.050)

Homestead & Rollback revenue is in the form of tax relief to local property taxpayers. The State grants a ten percent rollback on all agricultural and residential real estate taxes and a two and one-half percent rollback on owner-occupied single-family residences. The State also grants tax relief to qualified elderly and disabled homeowners based on income eligibility.

All Other Operating Revenue (Line 1.060)

Tuition payments include the revenue generated from providing career-technical services to the Manchester Local School District. For fiscal year 2010, 57 students from the Manchester LSD attended the Ohio Valley Career and Technical Center. The current contract for services is effective for fiscal years 2011 and 2012. Tuition also includes revenue for non-resident students receiving services from other schools within the District.

Earnings on Investments include interest earned on the District's deposits and investments. The forecast assumes that interest rates have steadily declined, and are projected to decline further. Should interest rates decline from current levels, this would have a negative effect on these projections.

Open Enrollment revenue projections are based on a constant of 50 students attending schools within the District through open enrollment. The revenue projections are for a 2.0% increase in the amount per student in FY 2011 and beyond. The District currently has 100 resident students open-enrolling into another school district. The expense for these students is included in the Purchased Services expenditure line.

Manufactured Homes Tax revenue is projected to increase by 2% annually.

Other Miscellaneous revenues include an estimate \$85,000 for pay to participate fees which will be implemented as part of the district's cost reduction plan as well as a 2% increase.

EXPENDITURES

Personal Services (Line 3.01)

The district recently eliminated some positions through attrition this coupled with using IDEA-B ARRA funds to supplement wages has reduced personal services expenditures by \$570,000. Two special education teaching positions as well as five special education aide positions have been funded with ARRA funds. These funds will be available for the 2010 and 2011 fiscal years ONLY, and these salaries have been factored into the projections for 2012 and beyond.

The district eliminated several positions for the 2011 school year with a reduction in force as well as through attrition. These reductions resulted in a savings of approximately one million dollars in salaries and wages which explains the notable decrease in this particular line item. The elimination of these positions is expected to assist the district in covering all estimated expenditures within the 2011 school year. These cuts continue for the 2012 school year with several administrative, teaching, and classified position being eliminated through a reduction in force and attrition. These cuts are estimated to save the district approximately \$2.6 million in salaries.

All personal service projections include a one-half percent (1.75%) increment for step increases on the salary schedules.

All existing negotiated agreements will expire in 2011, June for certified and September for classified. All salaries for 2012 through 2016 are projected with a zero (0%) increase in the base.

Supplemental salaries are tied to the base salary in the OVEA agreement and projected increases are based on the same percentages as identified for certificated salary projections above. However, as a result of the districts cost reduction plans many supplemental positions have been eliminated and the savings are reflected within the \$2.6 million dollars referenced above.

Employees' Retirement/Insurance Benefits (Line 3.020)

Projections for this line include employer costs for contributions to the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS), employer share of Medicare, workers' compensation premiums, unemployment compensation and health insurance premiums paid on behalf of employees. Increases

and/or changes to current retirement contributions have not been factored into this forecast. Any changes will have a materially financial effect on the District.

Projections for contributions to STRS and SERS, Medicare, and workers' compensation premiums are tied to projected increases in personal services. An additional \$75,000 for SERS has been added to these projections. The SERS Board has moved to change the Ohio Department of Education Foundation Program deductions for traditional public schools from a calendar year basis, six months in arrears, to a fiscal year basis. Districts such as the Adams County/Ohio Valley School District that were previously paying in arrears are being asked to catch up on their payments. Therefore, beginning in July 2010, SERS will spread the collection of this arrearage in equal installments over the next six fiscal years.

Health insurance premiums increased by 4.3% in 2011 for a total increase of \$345,894 in premiums. However, with the cooperation of all staff and associations the District was able to make significant changes to the available health insurance plans. These changes have significantly reduced the projections for 2012. Projections for 2013 include a possible increase of approximately 5% as the district's negotiated agreements include a clause that guarantees the district a 10% savings from FY 2011 premiums over the next two fiscal years. Premiums for 2014 through 2016 are based on current claims experience with an anticipated increase of 10.0%. However, the district will be offering a H.S.A. in January 2012 and we are hopeful this new benefit will enable the district to reduce or eliminate this assumption in its entirety. It should be noted that the projected increase in health insurance costs is a little lower than the trend of 14.7%.

Purchased Services (Line 3.030)

Purchased service expenditures include utilities, contracted repairs and maintenance, professional services, and tuition and open enrollment costs for resident students attending other public schools as well as community schools.

The availability of (034) maintenance funds enables the district to utilize these funds for preventative maintenance contracts and has reduced general fund expenditures; however, a 3% increase has been factored in to offset any increases in these services.

Supplies and Materials (Line 3.040)

This line includes purchases of textbooks and instructional materials, custodial and maintenance supplies, fuel purchases for bus transportation, and other miscellaneous supplies and materials. The District currently runs a fleet of over 50 buses and utilizes approximately 130,000 gallons of fuel each year. Therefore an increase of 3% has been factored in to this forecast for each year.

Capital Outlay (Line 3.050)

Capital outlay expenditures include items such as improvements to building property, purchase of school buses, equipment, computers, and other assets with an estimated useful life in excess of five years. The district does have access to a half-mill of permanent improvement funds that will assist in minimizing the effect these expenditures have on the overall general fund.

Debt Service (Lines 4.010 through 4.060)

Projected debt service expenditures are based on the amortization schedules of existing non-voted debt.

Encumbrances

Estimated encumbrances have been projected based on historical patterns.

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