

**Logan-Hocking Local School District
Five Year Financial Forecast
For FY's 2010, 2011, 2012, 2013, 2014**

October 28, 2009

ASSUMPTIONS

Important Note

The School District has used its best judgment in preparing this forecast. Note however that significant changes in how public schools are funded in the State of Ohio are currently being implemented as the result of Am. Sub. H.B. 1 which was passed by the 128th General Assembly in July 2009. Initially presented by Governor Ted Strickland with the 2010-2011 biennial budget, the Evidenced-Based Model (EBM) attempts to establish an adequate funding amount and includes changes to the calculation of the local share, or charge-off. Additionally, major changes in the state funding formula were made as a result of HB 66. Future interpretations of the results of these changes in FY10 and beyond could have a material effect on this financial forecast. The forecast also attempts to include the impact of Federal stimulus dollars in FY 10 and FY 11. Accordingly, the user is encouraged to review this site for updates to the forecast in the future.

Note 1 – The School District

The Logan-Hocking School District (the School District) is located in Hocking County and encompasses all of the City of Logan. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates 10 instructional and support facilities.

Note 2 – Nature of the Forecast

This financial forecast presents, to the best of the Logan-Hocking 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 May 28, 2009, 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 3 – 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 disadvantaged pupil impact aid (DPIA) and Poverty Based Assistance (PBA) funds are included in the general fund.

Note 4 – 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 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 encumbrances 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 required 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 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

Internal Service Fund – Internal service funds may be used to 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.

Fiduciary Funds

Fiduciary fund reporting accounts for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and 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 appropriations 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.

Budget – A budget of estimated cash receipts and disbursements is submitted to the Hocking 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 any unencumbered balances from the preceding year. Prior to June 30, the School District must revise the 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 5 – General Operating Assumptions

The Logan-Hocking 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 6 – Significant Assumptions for Revenues and Other Financing Sources

A. – General and Tangible Personal Property Taxes

Property tax revenue estimates are based on historical growth patterns, including scheduled updates and reappraisals, and are substantiated by information provided for the upcoming fiscal year from the County Auditor. The property tax figures are based on historical growth levels. Tangible personal property tax collections are assumed to be essentially flat.

Property taxes consist of real estate, public utility and personal property, manufactured homes and tangible personal property taxes. Taxes are collected during the fiscal year by the Hocking

County Auditor. Settlement dates on which collections are distributed to the School District are established by State statute. Advances may be requested from the Hocking County Auditor as 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.

The property tax revenues for the School District are generated from several levies. The levies for the funds, 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>
<u>General Fund</u>			
Inside Ten Mill Limitation	N/A	N/A	2.40
Continuing Operating	Prior to 1976	N/A	19.70
Continuing Operating	1981	N/A	7.00
<u>Bond Retirement Fund</u>			
1990 Issue	1989	2013	5.70
2001 Issue	2001	2028	5.10
<u>Classroom Facilities Maintenance</u>	2001	2028	.50
<u>Permanent Improvement Fund</u>			
Inside Ten Mill Limitation	N/A	N/A	1.00
Inside Ten Mill Limitation – Technology	N/A	N/A	.50

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. Tax rates reduce as property values increase to keep the dollar amount of a levy constant. However, state law designates 20 mills as a millage floor. The District is currently at the “20-mill floor”. Once there, levy revenues actually grow as inflationary increases in property values are built into future assessments, which happen every three years in Ohio, and as new properties are added to the tax base. The effective residential and agricultural rate for Logan-Hocking is \$20.000 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$20.00 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 represents gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Hocking County Auditor.

Tangible Personal Property Tax – Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, tangible personal

property tax revenues are based on actual receipts and information provided by the Hocking County Auditor.

With respect to tangible personal property used by telephone, telegraph, and interexchange companies, the assessment percentage will be reduced to 20% in 2007, 15 % in 2008, 10% in 2009, 5% in 2010, and 0% in 2011 and thereafter.

Portions of the revenue lost due to the elimination of tangible personal property tax will be reimbursed by the state.

Beginning with tax year 2006 through 2012, tax jurisdictions are reimbursed 100% of the loss in the case of qualifying fixed-sum levies, less the one-half mill that is not reimbursed. Beginning in tax year 2013, tax jurisdictions are reimbursed 100% of the loss, less one-half mill, of any qualifying fixed-sum levy that continues in effect for that tax year. The reimbursement continues so long as any qualifying fixed sum levy remains in effect.

Beginning with tax year 2006 through 2012, tax jurisdictions are reimbursed 100% of the loss in the case of qualifying fixed-rate levies. Between tax years 2013 and 2019, the reimbursement is reduced until no further reimbursement is made in tax year 2020 and thereafter. In the case of school districts, the reimbursement for fixed-rate levy losses are further reduced by the “school aid off-set”, if any. The school aid off-set is the additional State School Foundation Program aid that a school district may receive because of lower valuations resulting from the reduced assessment percentages. Beginning in tax year 2013, if the school aid off-set is greater than the fixed-rate levy loss, no further reimbursement is made to the School District.

In addition, the State also reimburses certain tax jurisdictions for tax losses occasioned by the reduction in assessment percentages applicable to electric generation and natural gas tangible personal property. To replace the money lost due to the lower assessment percentages, new State consumption taxes have been enacted; a kilowatt-hour tax (KWH tax) on electricity and a thousand cubic foot tax on natural gas (MCF tax). A mechanism has been created to replace the lost revenue from these property tax changes. Since the changes first occurred in tax year 2001, the first reimbursements under these provisions took place in February, 2002. Reimbursements are made twice a year, in February and August.

C. – Unrestricted Grants-in-Aid

Revenues from State’s EBM are expected to remain relatively flat in the years forecasted. For FY 2010 and FY 2011, the school district is funded under “transitional support guarantee”, which is 99% in FY 2010 and 98% in FY 2011. Currently increases from year to year are capped at .75%. Despite assumed phasing in of funding components of the EBM in years post FY 2011, the increase in funding is capped. . Enrollment projections have been prepared, with ADM forecasted to fluctuate from 4,030 in FY 2010 to 3,959 in 2014. With the current uncertainty of the level of state funding, the district has established its estimates based on its best judgment.

D. – Restricted Grants-in-Aid

The anticipated revenue for fiscal year 2010 is based on current estimates provided by the Ohio Department of Education. Restricted Grants-In-Aid increased significantly in FY 2006 as a result of the School District qualifying for Poverty Based Assistance (PBA). This restricted aid was provided for intervention, all-day kindergarten, professional development, and

classroom learning opportunities. In FY 2010, PBA was eliminated. Related funding is incorporated in the EBM, but is unrestricted at this time.

In FY 10 and FY 11, Restricted Federal Grants in Aid were received under the State Fiscal Stabilization Funds designation. The likelihood of similar funding for years post FY 11 is not known at this time.

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 rollback and homestead tax relief program.

F. – All Other Revenues

All other revenues include tuition, interest on investments, student class and book fees, extracurricular activity fees, miscellaneous receipts and donations.

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 costs.

Note 7 – Significant Assumptions of Expenditures and Other Financing Uses

A. – Personal Services

The amounts for salaries and benefits are based on existing negotiated agreements. For the period beyond the current agreements, historical patterns regarding salary and benefit increases have been used. Increases greater than these assumptions are due to projected hiring of staff to meet the increased needs of the District. Certain decreases are also incorporated into the forecast, reflecting the elimination of certain positions. Due to current economic difficulties, no base salary increases in years post FY 12 are forecasted at this time.

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.

C. – Purchased Services

Purchased service expenditures are comprised of professional and technical services, property services (repairs and maintenance, rentals, and lease purchase agreements), travel mileage/meeting expense, communication (advertising, postage, and telephone services), utilities services, contracted services, tuition, pupil transportation, and other purchased

services. Anticipated expenditures in these areas are based on historical patterns and are assumed to increase with inflation. The District is in compliance with the percentage expenditure requirements established by House Bill 412. The most significant increases are utility costs and tuition payments for community school students. Note that adjustments have been made to estimate the effects of utility cost changes relating to the opening of the new high school, two new elementaries and the middle school addition.

D. – Supplies and Materials

Supplies and materials are comprised of general supplies, textbooks, periodicals, newspapers, films, and filmstrips, and food and related supplies and materials. The most significant increases have been noted in fuel costs in the past.

E. – Capital Outlay

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

F. – Debt Service

Not Applicable.

G. – Other Objects

Other object expenditures consist of dues, fees, and insurance.

Further Information

Contact the Office of the Treasurer for further information regarding this forecast.

Submitted October 28, 2009
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Logan-Hocking Local School District

5 Yr Assumptions October 2009