



## **Financial Report End of September 2009**

All of the financial activities of the past month were in accordance with expectations with the exception of property tax allocation revenue. For the month, general fund expenditures exceeded revenues by \$1,770,545.

**1. General Fund Financial Report** – For the month of September, expenditures exceeded revenues by \$1,770,545. This decreases our general fund cash balance to \$9,392,201 after the third month of the fiscal year. For the month of September, revenues were 59.23% less than projected while expenditures were 4.57% less than projected.

On the revenue side, the major variance occurred in the Property Tax Allocation category where the District did not receive its rollback and homestead tax credits from the State of Ohio as had been projected and as it had previously received in the month of September for the past five years. It is now anticipated that these tax credits will be received in the month of October.

On the expenditure side, Purchased Services, Supplies and Materials, Capital Outlay, and Other Objects were all significantly less than projected. For the year, all expenditure categories are now either less than projected or within a minor variance.

Thus far for the fiscal year, revenues are \$1,042,777 less than projected and expenditures are \$213,486 less than projected. Overall, this gives an unfavorable variance of \$829,291 after the third month of the fiscal year.

**2. Bank Reconciliation Report for September** – The total cash balance for all funds is \$21,602,428.59 with the general fund and state fiscal stabilization fund having a cash

balance of \$9,392,200.49. This overall cash balance is \$4,474,199.15 less than that at the end of August which can be accounted for by:

- The \$1,770,545 excess of expenditures over revenues in the general fund.
- Expenditures over revenues of \$2,783,149 out of the Building Project Fund (Fund 004-9208).

**3. Financial Summary Report** – This report shows the year-to-date, month-to-date, and current balance information for all funds. Also included is a detailed budget account listing for both purchased services and supplies and materials in the general fund.

**4. Five Year Financial Forecast** – The five year financial forecast is presented for your approval. This five year forecast revision updates the financial data from the forecast approved in March 2009. This forecast incorporates salary and benefit elements of the proposed AEA agreement along with revised enrollment and staffing level assumptions based upon the October 2009 student count. Overall, the revised forecast is conservative with regard to revenues and should be as close to reality as possible with regard to expenditures. We will closely monitor this forecast in comparison to our actual monthly financial results. We will update this forecast again in May of 2010 as we near the end of the 2010 fiscal year. If all of the assumptions proved to be correct, the District would be left with an unreserved fund balance of **-\$723,673** at the end of FY13 and **-\$5,013,394** at the end of FY14.

The March 2009 forecast showed an unreserved fund balance of \$1,002,650 at the end of FY13. Comparing this to the current forecast at the end of FY13 and adjusting for actual FY09 end of the year data, results in a difference of \$1,889,600. There are four major changes in the forecast assumptions that account for this difference:

- The 2009 reappraisal in this forecast has a 5% reduction in property valuation versus 0% in the March forecast. This 5% reduction in valuation results in total property tax lost revenue of \$600,000 from FY10 through FY13.
- Renewal of the 5.61 and 7.33 mill levies versus replacement as in the March forecast. By renewing the levies rather than replacing, the District would lose \$358,000 in tax revenue over this same period.
- Loss of \$200,000 in All Day Kindergarten tuition in FY12 and FY13.
- 1.5% base salary increases for all employees in FY10 and FY11 versus 0% increases in the March forecast. This results in additional personnel expenditures of \$731,600 after taking into consideration the staff cuts that are included in the current forecast.

The **-\$5,013,394** unreserved fund balance at the end of FY14 includes a \$1,152,964 reduction in tangible personnel property tax direct reimbursement payments as the phase out of this revenue source is scheduled to begin in FY14. No additional base salary increases are included beyond FY11 as the District would not be able to certify a contract in FY13 and FY14 since a negative unreserved fund balance is projected. Overall, for the five year period, the forecast shows revenues increasing an average of

0.51% per year while expenditures are increasing at 4.15% per year. With expenditures growing at a much faster pace than revenues, the District would begin deficit spending in FY11 which in turn would lead to the negative unreserved fund balances in FY13 and FY14. Beginning in FY11, either additional revenue must be realized or additional expenditure cuts should be made to avoid the negative fund balances projected for FY13 and FY14.





**Aurora City School District**  
**Notes and Assumptions Related to Five-Year Financial Forecast**  
**October 2009**

The five-year financial forecast was created by the 122<sup>nd</sup> General Assembly in 1997-98 through Am. Sub. HB 412. The purpose of the forecast is:

- To provide a tool for long range financial planning at the local level.
- To create a standard method by which a school district's financial condition could be readily assessed by the legislature, the Ohio Department of Education, and the Auditor of State's Office.
- To determine a school district's financial ability to enter into and fulfill contracts with vendors, unions, and other parties with whom the school conducts business.

The forecast is required to be updated twice each fiscal year. The first filing is required before October 31 and the second filing is required between April 1 and May 31.

This forecast contains a series of assumptions and estimates of future economic, legislative, and market conditions. It is a snap shot of variables known or assumptions made at a particular point in time. Because circumstances and conditions assumed in projections frequently do not occur as expected and are based on information existing at the time projections are prepared, there will usually be differences between projected and actual results. The five -year forecast is prepared on a cash basis and not on an accrual basis for both revenue and expenditures. Cash basis accounting recognizes revenue when received not earned and recognizes expenditures when paid rather than incurred.

**General Economic Trends**

The Beige Book Summary from the Fourth District Federal Reserve Bank, which primarily covers Ohio, reports that:

- Overall economic activity in the area has shown slight improvement since the spring of 2009 but activity remains sluggish.
- Manufacturing output has been flat to up slightly. On a year-over-year basis, factory output remains depressed and capacity utilization remains below historic norms.
- Modest employment declines were reported in commercial construction, banking, and coal mining.
- Residential construction remains weak and sales trends are expected to remain at current levels or fall slightly through year's end.
- Nonresidential construction has been mixed with some improvement seen in public works projects. Construction activity is expected to be very weak during 2010.
- Commercial and industrial loan activity was stable to declining.
- Consumer loan demand has been soft with interest rates holding steady.
- Consumer spending has been steady to down slightly and is lower than last year.



Based on the above indicators, this forecast assumes that the overall state of the regional economy will be down and that housing reappraisals will show decreases in value and new construction will be at lower than historical levels thus reducing projected revenues for the District.

## **REVENUE**

### **General Property Tax (Real Estate) (Forecast Line 1.010)**

General property or real estate taxes are the largest revenue source for the District. In FY09, real estate taxes accounted for 63% of the District's total revenues.

Real estate taxes are collected on a calendar year basis in contrast to a school district's fiscal year which runs from July 1<sup>st</sup> to June 30<sup>th</sup> each year. Adding to the complexity of forecasting tax collection revenues is the fact that both the effective millage and the total assessed valuation change from one year to the next. Because of this, property tax revenues received by a school district are the combination of two different years' assessments and valuations. Changes to value and assessment rates occur primarily as a result of new construction, reappraisal, tax appeals received by the county, and levies newly approved by the voters.

The State of Ohio requires that residential and commercial real property be appraised every six years and updated mid-way through the six year period. In Portage County, a reappraisal occurred in tax year 2006 with a reappraisal update scheduled for 2009. The 2009 reappraisal update will have an effect on the real estate tax revenue receipts in Fiscal Year 2010. For the past three appraisals, residential property values have shown 10.72% average inflationary growth while commercial and industrial property has increased an average of 6.28%. New construction for the previous ten years has averaged 3.12% for residential construction and 4.27% for commercial and industrial construction. However, based upon the above mentioned economic factors, it is projected that historical trends in assessed valuation growth will be significantly lower over the next several years than in previous years.

The Ohio Department of Taxation oversees the residential property valuation process to ensure that taxable values are properly reflective of market values. The department utilizes sales ratios to analyze both reappraisal and update valuation changes. Sales used in the ratio studies do not include sales of new homes, foreclosure sales, sales between family members, and other sales that are not arms-length transactions. The department's goal, based on national standards, is to have the median value for tax purposes at about 92% - 94% of median market value. As a result of the weak economy, sales ratios in almost all Ohio counties are already in the targeted range or worse. In 2008, 41 counties in Ohio were reappraised or updated with the average change in value at 0.7%. This is in contrast to 2005, when the average change in value was 7.0%. In 2009, 24 Ohio counties are scheduled for reappraisal or update including Portage County. Historically, when a county is coming up for reappraisal or update, the value to price ratio has been in the low to mid-80 percent range, so the department and county must raise values to bring that ratio above 90% and into the acceptable range for the county auditor's value to reflect true market value. Based on current sales ratio data, the department is likely to recommend either no valuation

increases or outright decreases in the majority of these counties. In the most severely effected counties, decreases may exceed 10%. The Ohio Department of Taxation is anticipating that historically normal valuation increases will not occur until Tax Year 2013 or 2014.

Based upon the above information, the fact that the sales ratio in the City of Aurora was already at 91.65% in 2008, and information received from the Portage County Auditor, it is assumed that Aurora will have a 5% decrease in its property valuation for the 2009 reappraisal. Further, the 2012 reappraisal is projected to show only 1.00% inflationary growth as the housing market is not expected to rebound anytime in the near future. With residential construction not expected to show any improvement through 2009, new construction growth is estimated to be well under 1% in 2009, 1% in 2010, and at 2% in 2011 through 2014. The implication of the 5% decrease in property values is that the District will lose approximately \$320,000 in the revenue generated on its 5.60 inside mills over the next three years.

The voters of the District passed a new combined 6.00 mill operating and school improvement bond issue in March of 2008. The operating portion of this issue is 4.09 mills. Collection of this additional millage began in calendar year 2009.

The District has a five year 5.61 mill operating levy that is set to expire at the end of 2010 and a five year 7.33 mill operating levy that is set to expire at the end of 2012. It is assumed that both of these levies will be renewed in the year of their expiration. The forecast shows a drop in tax revenue in FY11 through FY14. Under the guidelines in which the forecast is prepared, this revenue is reinserted on Forecast Line 11.020 since the continuation of the levies is subject to voter approval.

#### **Tangible Personal Property Tax (Forecast Line 1.020)**

Tangible personal property tax is a tax levied on furniture and fixtures, equipment, supplies, inventory, and machines used in business and industry. Tangible personal property tax revenue is being phased out per Ohio HB66 which became effective July 1, 2006. The first year of the phase-out began in Tax Year 2006. As a result, local tangible tax collections have steadily declined through FY10. Telephone personal property will remain taxable through FY11 after which time public utility tangible collections will be the only component of this category's revenue.

HB66 promised school districts full reimbursement of their lost tangible personal property tax revenue for a five year period (FY07 – FY11). Beginning in FY12, HB66 specified a gradual elimination of these replacement funds over the next seven year period. Revenue from the State's new Commercial Activity Tax (CAT) tax was assumed to provide the State sufficient revenue to continue the replacement payments through Tax Year 2017 (FY19), the final year of the phase-out.

In the summer of 2009, Ohio HB1 was passed. HB1 established a new education funding methodology, the Evidence Based Model (EBM). The EBM will be phased in over a ten year period and will change the funding of Ohio's schools in a variety of ways. One area that is changing under HB1 is the reimbursement period for the tangible personal property tax loss.



Under HB1, districts will now receive full reimbursement through FY13 rather than FY11 with the phase-out not scheduled to begin until FY14.

A portion of the revenue loss is reimbursed through the funding formula (Forecast Line 1.035) due to a decrease in the District's taxable valuation. Valuation decreases lead to a reduction in the valuation that is charged against the state revenue the District receives. Any amount not reimbursed through the charge off in the funding formula will be made-up in the form of a direct payment to the District. The direct payments are included in the District's Property Tax Allocation (Forecast Line 1.050).

If a school district is on the state guarantee for its foundation payments, it will receive all of its reimbursements in direct payments. Formula districts will receive their payments in two parts as is described above. In FY14, the direct reimbursement part of the payments will begin to phase-out.

#### **Income Tax (Forecast Line 1.030)**

This revenue is from an income tax sharing agreement with the City of Aurora. The City of Aurora has abated several businesses and due to the size of the abatements is required to share income tax revenue with the District. The revenue projections reflect estimates received from the City of Aurora Finance Director and are expected to remain constant for the term of this forecast.

#### **Unrestricted Grants In Aid (Forecast Line 1.035)**

As was mentioned above, in the summer of 2009, Ohio HB1 was passed by the General Assembly establishing a new education funding methodology, the Evidence Based Model (EBM). The EBM, which will be phased in over a ten year period, is a model for determining adequacy based on inputs. The inputs are a result of evidence based research that indicates if revenues are spent in prescribed ways, education productivity increases.

The structure for distributing these state revenues remains a foundation model. The foundation level is the evidence based list of inputs minus a local share based on local wealth. Under the previous funding model, the local share (charge-off) for basic aid was 23 mills. Under the EBM, the local share of adequacy (charge-off) is reduced to 22 mills in FY10-11, 21 mills in FY12-13, and 20 mills in FY14 and thereafter.

Under the EBM the previous SF-3 form for foundation payments is being replaced with the new PASS (Pathway to Student Success) form. The PASS form includes adequacy amounts for various evidence based inputs including:

- The number of teachers needed to address different types of student needs as determined by the number of students and student/teacher ratios (teachers for regular, special education, LEP, and economically disadvantaged students)
- Per pupil (instructional materials, operations and maintenance)
- Per district (district administration)



- Per organizational unit (not an actual building, mostly used to allocate funds for operational/administrative costs such as principals, secretaries, etc.)

Many of the components are then adjusted by a new Educational Challenge Factor (ECF), which ranges from 0.76 to 1.64. This dramatically increases state aid for districts with the highest multipliers and decreases state aid for those with the lowest multipliers. The ECF is set in law for each district for each biennium and is based on the following three factors:

- College attainment rate of district's population (lower rate is higher multiplier)
- District's wealth based property and income (lower wealth is higher multiplier)
- District's concentration of poverty (higher poverty is higher multiplier)

Aurora's ECF is 0.92661 for FY10 and FY11 and is project to remain at this rate for all of the years on this forecast. Since this factor is less than 1.00, the District will see a decrease in state aid.

All districts are also required to offer All Day Kindergarten beginning in FY11. Districts, such as Aurora, which charged tuition for participating students in FY09 may continue to do so at the same rate for FY10 and FY11 but are prohibited from charging this tuition from FY12 on. This results in the Aurora City School District loosing \$200,000 in other revenue beginning in FY12.

The EBM incorporates a minimum guarantee and maximum increase placing the majority of districts on these guarantees or caps for FY10 and FY11. Districts are guaranteed to receive no less than 99% of the prior year's funding in FY10 and 98% of the prior year's funding in FY11. A gain cap is applied so that no district will receive more than a 0.75% increase in each of the next two years. The Aurora City School District is projected to be under the guarantee for both FY10 and FY11. The District is also projected to remain under the guarantee for the remainder of this forecast with the guarantee projected to be at the 98% of the prior year's funding level for FY12 through FY14.

An appointed 25 member Ohio School Funding Advisory Council will make recommendations for future adequacy amounts for the evidence based inputs. This council will recommend not enact as the General Assembly will still decide funding levels. This new model will be phased-in over several biennia with very little increase in funding anticipated over the next couple of years. This is a recipe for needing additional local taxes to be approved.

Overall, the Aurora City School District is projected to have an average annual decrease of 0.67% in its Unrestricted Grants In Aid revenues from FY10 through FY14.

#### **State Restricted Grants In Aid (Forecast Line 1.040)**

Special state funding programs are also included in this category. The District receives funds to assist in career tech and excess cost reimbursement for qualifying special education expenditures. The excess cost reimbursement for qualifying special education expenditures is being reduced by 50% of previous year amounts by the State of Ohio. This represents a revenue

loss of approximately \$70,000 per year to the District. Revenue in this category is expected to remain constant from FY10 through FY14 but does reflect a 62% decrease from FY09.

#### **Restricted Federal Grants In Aid – SFSF (Forecast Line 1.045)**

This forecast line accounts for the state fiscal stabilization funds made available from the American Recovery and Reinvestment Act that the District will be receiving with its foundation payments. The District is scheduled to receive \$256,936 in both FY10 and FY11.

#### **Property Tax Allocation (Forecast Line 1.050)**

This forecast line includes funds that are reimbursements from the State for tax credits given to residential and commercial/industrial property owners. There are three real property credit programs and are fully reimbursed by the state to the local taxing jurisdictions. The property tax credit programs include:

- **10% rollback** which reduces the tax on every parcel of residential real property in the state. Prior to HB66, this rollback also included commercial and industrial real property.
- **2.5% rollback** which reduces the tax on all owner occupied homesteads.
- **Homestead exemption** program which gives a tax credit to seniors (over 65 years of age) and disabled.

The property tax allocation category includes the following tangible personal property tax direct reimbursement payments from the State of Ohio:

• FY09	\$2,098,914
• FY10	\$2,416,957
• FY11	\$2,447,980
• FY12	\$2,447,980
• FY13	\$2,447,907

The direct reimbursement part of the payments will begin to phase-out in FY14. The District will lose \$1,152,964 in FY14 because of this phase-out.

#### **All Other Revenue (Forecast Line 1.060)**

Included in this category are various items such as investment income, fees, tuition, donations, etc. It is expected that this category will increase approximately 3.0% per year from FY10 through FY14 with the exception of FY12 where a 36.73% decrease is projected as the District will no longer be able to charge for All Day Kindergarten in accordance with HB1. This is a loss of approximately \$200,000 per year to the District. Overall, this results in an average decrease of 4.95% in this revenue category from FY10 through FY14.



### **Other Financing Sources (Forecast Lines 2.040, 2.050, and 2.060)**

Included in this category are operating transfers-in, advances-in, and sale of notes. The operating transfers-in will be for the textbook and instructional materials set-aside account and will equal the bulk of the operating transfers-out amount from the Other Financing Uses category. The District advances funds to other funds that have not received the full cash allocation approved by the funding source. This typically occurs with Federal and/or State funds at the end of the fiscal year. The advanced amount is then repaid in the following fiscal year when the funding is received from the governing agency. Advances-in coincide with advances-out (see Other Financing Uses). No note sales are anticipated.

## **EXPENDITURES**

### **Personal Services (Forecast Line 3.010)**

Personal services expenditures represent compensation paid to all staff members including all full time employees, substitutes, part-time employees, and Board Members. The District's teaching staff is represented by the Aurora Education Association (AEA) which is a part of the Ohio Education Association and the District's bus drivers, custodians, and para-professionals are represented by the Ohio Association of Public School Employees (OAPSE). The contract with the AEA expires August 31, 2011 while the OAPSE contract expires December 31, 2010 with a wage re-opener for January 1, 2010. In addition to the annual pay increases, the majority of the staff have step increases (based on years of experience) and in the case of the teaching staff, increases based upon an increase in the level of their education (i.e. Bachelors degree to masters degree, etc.). The average step and experience increase for a member of the teaching staff is 2.5% per year.

This forecast assumes the following base salary increases:

- Teaching staff – 1.50% in FY10 and FY11, 0.00% for FY12 through FY14
- Administrators – 1.50% in FY10 and FY11, 0.00% for FY12 through FY14
- OAPSE staff – 1.50% in FY10 and FY11, 0.00% for FY12 through FY14
- Other classified staff - 1.50% in FY10 and FY11, 0.00% for FY12 through FY14

The projections also reflect the following staffing additions/reductions:

- FY10 – 3.0 additional teachers
- FY11 – Do not replace 2 retiring teachers and additional net 3.5 teacher position reductions, 2 additional custodians
- FY12 – 1 additional teacher and a 60% Occupational Therapist
- FY13 – No additional staff
- FY14 - No additional staff
- It is assumed that 2 members of the teaching staff will retire at the end of both FY10 and FY11 and 3 members of the teaching staff will retire at the end of both FY12 and FY13.

### **Benefits (Forecast Line 3.020)**

This category includes expenditures for all medical premiums, payments to the STRS and SERS retirement systems, Medicare, workers compensation and unemployment insurance. Retirement contributions and workers compensation are true payroll taxes and change as wages are modified.

District benefit costs include:

- Payments to STRS/SERS that equal 14% of payroll
- Payments for workers compensation, unemployment, Medicare contributions (for those employees hired after April 1, 1986) and SERS surcharge that are estimated to equal 3.50% of payroll
- Payments for medical/dental/prescription coverage. These costs will increase by 8.79% in FY10 as a result of a payback from the consortium's terminal reserve due to lower than anticipated claims experience. The consortium does not expect to be able to take this payback in future years. Without the subsidy from the terminal reserve, this cost is anticipated to increase by 20.33% in FY11. The health insurance premiums are then anticipated to increase at a rate of 10.00% in FY12 through FY14.

### **Purchased Services (Forecast Line 3.030)**

Purchased Services account for a wide variety of expenses incurred by the District including utilities, repairs and maintenance, contracted professional and technical services, special education tuition, open enrollment charges, and community school tuition. Overall Purchased Services costs are projected to increase by an average of 6.09% from FY10 through FY14 as a result of inflation and additional building square footage with the completion of the District's Facility Project in FY11.

### **Supplies and Materials (Forecast Line 3.040)**

Supplies and Material expenditures include instructional supplies, textbooks, library books, office supplies, computer software, building maintenance supplies, and vehicle supplies. Supplies and materials costs are also expected to increase 5% per year from FY10 through FY14.

### **Capital Outlay (Forecast Line 3.050)**

Capital outlay consists of any equipment items the District purchases including school buses, furniture, and technology. Three buses are budgeted for replacement in FY10 through FY14. A full size bus costs approximately \$75,000 in FY10. New band uniforms at a cost of \$62,156 were purchased in FY10. Overall, capital outlay costs are projected to increase by an average of 2.75% per year from FY10 through FY14.



### **Debt Payments (Forecast Line 4.060)**

These costs are for the payment of the Leighton Elementary School Certificates of Participation. Payments are constant at \$419,000 per year from FY10 through FY14.

### **Other Objects (Forecast Line 4.300)**

The expenses in this category include county auditor fees for the collection of taxes, state auditor fees for performing the financial audit, banking fees, membership fees, and settlement costs. County auditor fees account for approximately 70% of this item. In FY09, Other Objects expenses were \$549,724 with \$384,503 of that total being for county auditor fees. County auditor fees will increase sharply anytime a new operating levy is collected, as was the case in FY09. New construction also will cause county auditor fees to increase as more tax dollars are collected. A 7% increase from FY10 through FY14 is expected.

### **Other Financing Uses (Forecast Lines 5.010 and 5.020)**

Included in this category are operating transfers and advances-out. Operating transfers-out are funds that are moved from the general fund to other funds without the expectation of repayment. The majority of the operating transfers-out are to the textbook and instructional materials set-aside account (see Other Financing Sources above). Advances are temporary movements of cash from the general fund with the expectation of repayment. This typically occurs with Federal and/or State funds at the end of the fiscal year. The advanced amount is then repaid in the following fiscal year when the funding is received from the governing agency. The advances are projected to remain constant in each fiscal year.

## **Forecast Summary**

All of the individual assumptions presented were based upon the best and most current information available.

The forecast shows an increasing ending cash balance and unreserved fund balance for FY10. Beginning in FY11 and continuing through the end of the forecast in FY14, the District's ending cash balance and unreserved fund balance are projected to decrease. Lower tax valuation amounts, caused by lower inflationary growth, and lower new construction rates along with reductions in the state foundation payments and other revenue sources, serve to project an average increase in revenues and other financing sources at 0.51% per year from FY10 through FY14. Expenditures and other financing uses are projected to increase by an average of 4.15% per year for this same time period.

School districts in sound financial condition realize that maintaining a consistent year end unreserved fund balance indicates that the district is actually regressing in its fiscal health. As the district's operational costs increase, the same dollar value the district carried as a year end balance the previous year will be worth less in the following year. A common and effective way in which to measure a district's fiscal health is to determine its True Days Cash Ratio, which is the district's year end unreserved fund balance in terms of its current cost of operations. This

ratio shows the number of days of cash carryover that the district maintains. The True Days Cash Ratio should be a minimum of 40 days. This targeted ending cash balance serves to maintain fiscal solvency, establish levy needs, and provides a contingency against instability of tax collection rates or local tax base, uncertainty of state revenues, and unexpected operational and/or maintenance expenditures. The District's True Cash Ration for this forecast is:

True Days Cash Carryover	FY09	FY10	FY11	FY12	FY13	FY14
Unreserved Fund Balance	4,399,960	4,772,722	3,748,141	1,788,943	(723,673)	(5,013,394)
Total Expenditures and Uses	28,323,885	30,308,609	31,689,560	32,666,893	33,636,242	34,698,313
True Days Cash Carryover	57	57	43	20	(8)	(53)