Mary Taylor, CPA
Auditor of State

# Marion City School District
## Marion County

# Fiscal Watch Termination

Local Government Services Section

**Marion City School District**
**Marion County**

**Fiscal Watch Termination**

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Marion City School District Financial Forecast
For the Fiscal Years Ending June 30, 2009, through June 30, 2013

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**Termination of Fiscal Watch**

Pursuant to a request submitted to the Auditor of State by the Marion City School District Board of Education to remove the School District from Fiscal Watch, the Auditor of State has determined that Marion City School District has met the Guidelines for Release from Fiscal Watch as published by the Auditor of State and the Ohio Department of Education. Marion City School District's status of Fiscal Watch is hereby terminated as of April 28, 2009.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to C. Gary Iams, President of the Board of Education of the Marion City School District; J. Pari Sabety, Director of the Office of Budget and Management; Deborah S. Delisle, State Superintendent of Public Instruction, and Scott Schertzer, Mayor of the City of Marion.

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April 28, 2009

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**Analysis for Termination of Fiscal Watch**

## The Declaration of Fiscal Watch

The Auditor of State, in accordance with Section 3316.03 of the Ohio Revised Code, is required to declare a school district to be in a state of fiscal watch if it is determined that the school district meets any one of the four conditions described in Section 3316.03(A) of the Ohio Revised Code. The conditions are:

1. The Auditor of State has certified a forecasted general fund operating deficit for the current fiscal year exceeding 8 percent of the school district's general fund revenue for the preceding fiscal year and the school district has not passed a tax levy to eliminate this condition in the succeeding fiscal year.

2. A school district has restructured its operating debt while in fiscal emergency, the fiscal emergency has been terminated and any portion of the restructured debt is still outstanding.

3. A school district was placed in fiscal caution due to budgetary conditions that could lead to a declaration of watch or emergency, the school district has not acted reasonably to correct the noted fiscal conditions, and the Ohio Department of Education has determined that a declaration of fiscal watch is necessary to prevent further fiscal decline.

4. The Auditor of State has certified a forecasted general fund operating deficit for the current fiscal year between 2 percent and 8 percent of the school district's general fund revenue for the preceding fiscal year, the school district has not passed a levy to eliminate the deficit in the succeeding fiscal year, and the Auditor of State determines there is no reasonable cause for the deficit or that declaring fiscal watch is necessary to prevent further fiscal decline.

On March 26, 2004, the Department of Education declared the Marion City School District to be in a state of fiscal caution in accordance with Section 3316.031 of the Ohio Revised Code. The declaration was based on an anticipated deficit for the fiscal years ended June 30, 2004, and 2005. The Department of Education notified the Auditor of State that Marion City School District failed to submit an acceptable written proposal required by Section 3316.031(C) for correcting the conditions that prompted the declaration of fiscal caution.

According to the provisions of Section 3316.03(A)(3), the Auditor of State declared the Marion City School District in fiscal watch on June 17, 2004, based on the School District's failure to submit an acceptable written proposal required by Section 3316.031(C) for correcting the conditions that prompted the declaration of fiscal caution and an analysis of the School District's five-year forecast filed with the Department of Education on May 4, 2004, which included deficits of $360,000 and $2,645,000 for fiscal years 2004 and 2005, respectively.

## Guidelines for Removal from Fiscal Watch

The procedures for removing a school district from fiscal watch are set forth in the Guidelines for Release from Fiscal Watch developed by the Ohio Department of Education and the Auditor of State. These guidelines permit a school district to first submit a request for release from fiscal watch in the fiscal year following the fiscal year in which the Auditor of State declared the school district in fiscal watch. A school district may not request release from fiscal watch in the same fiscal year in which the Auditor of State made the declaration. Additionally, a school district may not request release from fiscal watch until the State Superintendent of Public Instruction has approved the financial recovery plan of the school district.

**Analysis for Termination of Fiscal Watch**

A school district seeking release from fiscal watch must request release by sending a letter and board resolution to the Auditor of State and the State Superintendent of Public Instruction.

The Department of Education will:

- Determine whether the school district has met the requirements of its financial recovery plan (including alleviating the conditions that lead to the declaration of fiscal watch and alleviating any conditions and discontinuing any practices identified by the Auditor of State that could lead to the declaration of fiscal caution) and provide the Auditor of State with a written summary of its findings; and,

- Based on its review and analysis of the school district, notify the Auditor of State whether it supports the Board of Education's request for release.

The Auditor of State will:

- Determine that the school district received an unqualified opinion on the most recent audit of its financial statements and that the statements were prepared in accordance with generally accepted accounting principles;

- Determine that the compliance and management letters issued as part of the most recent audit contain no material issues relating to accounting policies and procedures that could negatively impact the financial recovery or condition of the school district;

- Examine the school district's five-year forecast. To be eligible for release from fiscal watch, the forecast must be based on the Board of Education's most likely course of action, demonstrate that the school district will avoid all fiscal watch conditions for the current and ensuing fiscal year, and receive an unqualified opinion from the Auditor of State; and,

- Make a determination regarding release and notify the school district and the Department of Education.

**<u>Analysis of Compliance with the Guidelines for Termination of Fiscal Watch</u>**

The Auditor of State received a letter from the Ohio Department of Education which recommended that Marion City School District be released from fiscal watch on December 2, 2008. The Marion City School District Board of Education passed a resolution on May 5, 2008, requesting termination from fiscal watch.
.
The primary strategy of the recovery plan dated June 16, 2005, was to increase revenues and decrease operating expenditures. Proposals to achieve this strategy included the following:

- Increase student fees and implement a pay to participate program for extracurricular activities;

- Reduce certified, classified, and administrative staff;

- Eliminate the talented and gifted program at the elementary schools and middle school and the instrumental program at the elementary schools;

- Eliminate class field trips;

- Close one elementary school;
- Terminate the lease on office space at the earliest lease termination date;

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

- In fiscal year 2006, implemented student fees of $40 and increased them in fiscal year 2007 to $50. Implemented a pay to participate program for extracurricular activities beginning in fiscal year 2006 of $75 for middle school students and $150 for high school students.

- Reduced personnel costs (salaries and benefits) through the elimination of various certified, classified, and administrative positions along with reductions in supplemental contracts for both certified and classified positions during fiscal years 2004 through 2006. Through reductions in force as well as the elimination of positions through attrition, the School District has been able to reduce its general fund certified staff by a total of 73, classified staff by at total of 26, and administrative staff by a total of 6 since fiscal year 2004.

- Eliminated the talented and gifted program at the elementary schools and the middle school for an estimated savings of $86,000 as well as eliminated the instrumental program at the elementary school for an estimated savings of $168,000. In addition, class field trips were eliminated for an estimated savings of $25,000. One talented and gifted program was restored in fiscal year 2008 while two additional talented and gifted programs and the instrumental program were restored in fiscal year 2009.

- Closed the Lincoln Elementary School at the end of the 2005-2006 school year. The lease was also terminated for the Center State Building on July 1, 2007.

- On November 7, 2006, voters approved an emergency operating levy for 5.53 mills. The levy generates approximately $2,001,000 annually.

The Ohio Department of Education (ODE) provided the Auditor of State with a letter, dated December 2, 2008, in which ODE stated ". . .the School District has achieved the objectives of the recovery plan…ODE recommends the Marion City School District be released from fiscal watch".

The guidelines require the School District to receive an unqualified opinion on the audit of its financial statements prepared in accordance with generally accepted accounting principles. The School District's general purpose external financial statements for the fiscal year ended June 30, 2008, were released by the Auditor of State on March 17, 2009, and included an unqualified opinion.

As part of the analysis for termination of fiscal watch, the School District's compliance and management letters issued as part of the audit for fiscal year 2008, the most recent audit, were reviewed. The compliance and management letters disclosed the following:

- The School District did not have any citations in the report on compliance.

- The management letter that accompanied the 2008 audit included non-compliance findings and two recommendations, all of which were immaterial. These items would not have a negative impact on the financial recovery or condition of the School District.

**Marion City School District**
**Marion County**

**Analysis for Termination of Fiscal Watch**

The Auditor of State has examined the School District's financial forecast for the fiscal years ending June 30, 2009, through 2013, to determine if the School District will avoid fiscal watch conditions for the current and ensuing fiscal years. The financial forecast and our report thereon are included in Appendix A. The financial forecast reflects a positive unencumbered/unreserved general fund balance through fiscal year 2012. Our report on the financial forecast includes an unqualified opinion.

## Conclusion

Based on our analysis, the Auditor of State has determined the following:

1) The School District has received an unqualified opinion on financial statements prepared in accordance with generally accepted accounting principles for the fiscal year ended June 30, 2008.

2) The compliance letter issued as part of the 2008 audit contained no noncompliance issues;

3) The management letter issued at the completion of the 2008 audit included no material findings and no material recommendations;

4) The Ohio Department of Education has provided a letter dated December 2, 2008, which indicates the School District has achieved the objectives of the recovery plan and should be released from fiscal watch; and

5) The Auditor of State has examined the School District's financial forecast. The forecast demonstrates that the School District will avoid a fiscal watch condition based on the general fund balances for fiscal years 2009 through 2012.

The Marion City School District has met the guidelines for termination of fiscal watch; therefore, the fiscal watch status is hereby cancelled as of April 28, 2009.

It is understood that this report's determination is for the use of the School District's Board of Education, the Superintendent of Marion City School District, the Director of the Office of Budget and Management, the State Superintendent of Public Instruction, the Mayor of the City of Marion, and the Auditor of the State of Ohio, 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 in accordance with generally accepted auditing standards, we do not express an opinion on any specific accounts or fund balances identified 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**

# Marion City School District

**Marion County**

# Financial Forecast

**For the Fiscal Years Ending June 30, 2009, through June 30, 2013**

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**Marion City School District**
**Marion County**

**Fiscal Watch Termination**

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Mary Taylor, CPA
Auditor of State

Board of Education
Marion City School District
910 East Church Street
Marion, Ohio 43302

**Independent Accountant's Report**

We have examined the accompanying forecasted statement of revenues, expenditures, and changes in fund balance of the general fund of the Marion City School District for the fiscal years ending June 30, 2009, through June 30, 2013. The Marion City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

In our opinion, the 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 the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying statement of revenues, expenditures, and changes in fund balance of the general fund of the Marion City School District for the fiscal years ended June 30, 2006, 2007, and 2008 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on it. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 10, 2009

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**Marion City School District**
Marion County
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2006, through 2008 Actual;
For the Fiscal Years Ending June 30, 2009, through 2013 Forecasted

General Fund

| | Fiscal Year 2006 Actual | Fiscal Year 2007 Actual | Fiscal Year 2008 Actual | Fiscal Year 2009 Forecasted |
|---|---|---|---|---|
| **Revenues** | | | | |
| General Property Tax | $8,474,000 | $7,909,000 | $8,086,000 | $8,348,000 |
| Tangible Personal Property Tax | 1,569,000 | 1,797,000 | 1,077,000 | 352,000 |
| Unrestricted Grants in Aid | 26,388,000 | 26,732,000 | 27,035,000 | 28,686,000 |
| Restricted Grants in Aid | 1,836,000 | 2,721,000 | 3,098,000 | 3,354,000 |
| Property Tax Allocation | 1,272,000 | 1,597,000 | 1,743,000 | 1,961,000 |
| All Other Revenues | 2,715,000 | 3,017,000 | 2,984,000 | 2,970,000 |
| Total Revenues | 42,254,000 | 43,773,000 | 44,023,000 | 45,671,000 |
| **Other Financing Sources** | | | | |
| Transfers In | 4,000 | 7,000 | 99,000 | 0 |
| All Other Financing Sources | 10,000 | 73,000 | 0 | 0 |
| Total Revenues and Other Financing Sources | 42,268,000 | 43,853,000 | 44,122,000 | 45,671,000 |
| **Expenditures** | | | | |
| Personal Services | 23,278,000 | 22,344,000 | 22,996,000 | 24,348,000 |
| Employees' Retirement/Insurance Benefits | 7,477,000 | 7,622,000 | 8,058,000 | 8,176,000 |
| Purchased Services | 7,894,000 | 8,064,000 | 8,598,000 | 9,052,000 |
| Supplies and Materials | 680,000 | 689,000 | 850,000 | 1,094,000 |
| Capital Outlay | 104,000 | 124,000 | 517,000 | 485,000 |
| Debt Service | | | | |
| Principal | 19,000 | 0 | 0 | 0 |
| Other Objects | 500,000 | 443,000 | 645,000 | 752,000 |
| Total Expenditures | 39,952,000 | 39,286,000 | 41,664,000 | 43,907,000 |
| **Other Financing Uses** | | | | |
| Transfers Out | 54,000 | 83,000 | 0 | 75,000 |
| All Other Financing Uses | 0 | 6,000 | 1,000 | 0 |
| Total Other Financing Uses | 54,000 | 89,000 | 1,000 | 75,000 |
| Total Expenditures and Other Financing Uses | 40,006,000 | 39,375,000 | 41,665,000 | 43,982,000 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 2,262,000 | 4,478,000 | 2,457,000 | 1,689,000 |
| Cash Balance July 1 | 3,460,000 | 5,722,000 | 10,200,000 | 12,657,000 |
| Cash Balance June 30 | 5,722,000 | 10,200,000 | 12,657,000 | 14,346,000 |
| **Encumbrances and Reserves of Fund Balance** | | | | |
| Actual/Estimated Encumbrances June 30 | 807,000 | 620,000 | 473,000 | 800,000 |
| Reserves for | | | | |
| Textbooks and Instructional Materials | 1,469,000 | 1,871,000 | 1,935,000 | 1,885,000 |
| Total Encumbrances and Reserves of Fund Balance | 2,276,000 | 2,491,000 | 2,408,000 | 2,685,000 |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30 | 3,446,000 | 7,709,000 | 10,249,000 | 11,661,000 |
| **Revenue from Renewal/Replacement Levies** | | | | |
| Property Tax - Renewal or Replacement | 0 | 0 | 0 | 0 |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30 with Renewal or Replacement Levies | $3,446,000 | $7,709,000 | $10,249,000 | $11,661,000 |

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies
See Accountants Report

| Fiscal Year 2010 Forecasted | Fiscal Year 2011 Forecasted | Fiscal Year 2012 Forecasted | Fiscal Year 2013 Forecasted |
|---|---|---|---|
| $8,507,000 | $8,670,000 | $8,848,000 | $7,847,000 |
| 30,000 | 15,000 | 0 | 0 |
| 28,686,000 | 28,686,000 | 28,686,000 | 28,686,000 |
| 3,354,000 | 3,354,000 | 3,354,000 | 3,354,000 |
| 1,632,000 | 1,400,000 | 1,228,000 | 1,014,000 |
| 2,686,000 | 2,505,000 | 2,377,000 | 2,288,000 |
| 44,895,000 | 44,630,000 | 44,493,000 | 43,189,000 |
| 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 |
| 44,895,000 | 44,630,000 | 44,493,000 | 43,189,000 |
| 25,975,000 | 26,822,000 | 26,891,000 | 27,509,000 |
| 8,777,000 | 9,537,000 | 10,224,000 | 10,979,000 |
| 9,362,000 | 9,667,000 | 9,887,000 | 10,103,000 |
| 1,092,000 | 1,179,000 | 1,219,000 | 1,223,000 |
| 175,000 | 175,000 | 175,000 | 175,000 |
| 0 | 0 | 0 | 0 |
| 793,000 | 822,000 | 844,000 | 850,000 |
| 46,174,000 | 48,202,000 | 49,240,000 | 50,839,000 |
| 75,000 | 75,000 | 75,000 | 75,000 |
| 0 | 0 | 0 | 0 |
| 75,000 | 75,000 | 75,000 | 75,000 |
| 46,249,000 | 48,277,000 | 49,315,000 | 50,914,000 |
| (1,354,000) | (3,647,000) | (4,822,000) | (7,725,000) |
| 14,346,000 | 12,992,000 | 9,345,000 | 4,523,000 |
| 12,992,000 | 9,345,000 | 4,523,000 | (3,202,000) |
| 800,000 | 800,000 | 800,000 | 800,000 |
| 1,843,000 | 1,734,000 | 1,608,000 | 1,490,000 |
| 2,643,000 | 2,534,000 | 2,408,000 | 2,290,000 |
| 10,349,000 | 6,811,000 | 2,115,000 | (5,492,000) |
| 0 | 0 | 0 | 1,000,000 |
| $10,349,000 | $6,811,000 | $2,115,000 | ($4,492,000) |

## Note 1 - The School District

The Marion City School District (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 ten instructional/support facilities staffed by twenty-six administrative employees, one hundred seventy-seven classified employees, and four hundred seven certified full- time teaching personnel who provide services to 4,981 students and other community members.

## Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Marion City School District Board of Education's knowledge and belief, the expected revenues, expenditures, and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of April 10, 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 revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the general fund supported debt and the poverty based assistance fund 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 (non-GAAP) basis of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenues and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies 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.

**Note 4 - Summary of Significant Accounting Policies** (continued)

## B - Fund Accounting

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

### Governmental Funds

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

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

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

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

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

### Proprietary Funds

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

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

### Fiduciary Funds

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

**Note 4 - Summary of Significant Accounting Policies** (continued)

**C - Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the fiscal 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 Marion 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 fiscal year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire fiscal year. The appropriation measure may be amended or supplemented during the fiscal 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 Marion City School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program. The forecast is based on the Board's most likely course of action and does not include any changes that may be necessary to meet the proposed Ohio Evidence Based Education model introduced into the Ohio General Assembly.

## Note 6 - Significant Assumptions for Revenues and Other Financing Sources

### A - General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property, manufactured homes, and tangible personal property used in businesses which are located within the School District. Property taxes are collected for, and distributed to, the School District by the Marion County Auditor and Treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Marion County Auditor as the taxes are collected. When final 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 dates. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenues received during calendar year 2008 (the collection year) for real and public utility property taxes represent collection of 2007 taxes (the tax year). Property tax payments received during calendar year 2008 for tangible personal property (other than public utility property) are for calendar year 2008 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "property tax allocation." Beginning in tax year 2005, collection year 2006, the State of Ohio eliminated the ten percent rollback on commercial and industrial real property. The change increased real property taxes collected against commercial and industrial real property and decreased property tax allocation revenue.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2010 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to request any such advances for fiscal years 2009 through 2013.

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

| Tax Levies | Year Approved | Last Calendar Year of Collection | Full Tax Rate (per $1,000 of assessed valuation) |
|---|---|---|---|
| Inside Ten Mill Limitation (Unvoted) | n/a | n/a | $3.30 |
| Current Operating | Prior to 1976 | n/a | 28.20 |
| Emergency ($2,001,000) | 2007 | 2012 | 5.14 |
| Total Tax Rate | | | $36.64 |

**<u>Note 6 - Significant Assumptions for Revenues and Other Financing Sources</u>** (continued)

The School District has other levies for bonded debt and classroom facilities maintenance totaling $3.72 per $1,000 of assessed valuation. The School District's total tax rate is $40.36 per $1,000 of assessed valuation for tax year 2008.

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 tax revenues on carryover property as in the prior year. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set amount of revenue annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential and agricultural real property and commercial and industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below twenty mills. For the general fund, the effective residential and agricultural real property tax rate is $25.25 per $1,000 of assessed valuation and the effective commercial and industrial real property tax rate is $25.41 per $1,000 of assessed valuation for collection year 2009.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three year period. Beginning in 2007, HB 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

<u>General Property Tax</u> - General property tax revenues include real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenues section of the forecast schedule represent gross property tax revenues and are based upon anticipated assessed valuations and existing tax levies. Assessed values for tax year 2008 (collection year 2009) decreased due to the conclusion of cases before the board of revision. Taxpayers had until March 31, 2008, to file their complaint with the board of revision; therefore, changes were applied to tax year 2008. Due to current economic conditions and the outlook in Marion County, as well as the School District being at the twenty mill floor in past years and anticipated to return there in future years, no increases or decreases in assessed values are anticipated for the remaining forecast period.

The School District has an emergency levy expiring with the last year of collection in 2012. While the School District anticipates renewing this levy, voter approval is uncertain and the tax revenues have been excluded from the revenues section and presented under the heading Revenue from Renewal/Replacement Levies.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources** (continued)

Tangible Personal Property Tax - Tangible personal property tax was levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the 23 percent assessment rate on business inventory was to be reduced by 2 percent if the total statewide collections of personal property taxes for the second preceding year exceeded the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by 2 percent per year until completely phased out regardless of the growth in collections.

Beginning in 2006, House Bill 66 phased out, by 25 percent each year, tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in calendar year 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter is not subject to any tangible personal property tax. The School District, based on the last year of collections before the phase out period, will lose approximately $1,600,000, annually when the tangible personal property tax is completely phased out in 2009. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below). The decrease in revenue during fiscal years 2010 through 2011 is a result of the tax changes above.

**B - Unrestricted and Restricted Grants in Aid**

Unrestricted grants in aid represent State foundation payments. State foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, excess cost supplement, and transitional aid which are provided to address certain policy issues or correct flaws in formula aid are also included in this revenue.

The State's foundation program was established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills multiplied by the school district's taxable property valuation. In prior years, the per pupil foundation amount was increased by a regional cost of doing business factor. The cost of doing business factor was phased out over three years beginning in fiscal year 2006. The per pupil foundation level is set by the State Legislature. Historically, the per pupil amount has increased 2.2 percent since 2005. For fiscal years 2008 and 2009, the State Legislature has increased per pupil funding by 3 percent each fiscal year. The School District anticipates the per pupil amount to remain consistent each fiscal year after fiscal year 2009 because of proposed changes in State funding addressed below. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called "building blocks." The building blocks are funding for intervention, professional development, data based decision making, and professional development for data based decision making.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources** (continued)

The per pupil amount for fiscal years 2006 to 2009 are as follows:

| Fiscal Year | Per Pupil Foundation Level | Building Blocks | Total |
|---|---|---|---|
| 2006 | $5,283 | $0 | $5,283 |
| 2007 | 5,403 | 0 | 5,403 |
| 2008 | 5,565 | 49 | 5,614 |
| 2009 | 5,732 | 51 | 5,783 |

The anticipated unrestricted grants in aid for fiscal year 2009 are based on current estimates from the Ohio Department of Education. The most recent estimates reported on the February SF-3 for fiscal year 2009 are as follows:

| | Forecasted |
|---|---|
| | Fiscal Year 2009 |
| Formula Aid | $20,142,000 |
| Categorical Funding | 3,594,000 |
| Transportation | 802,000 |
| Parity Aide | 4,041,000 |
| Excess Cost Supplement Aid | 107,000 |
| Totals | $28,686,000 |

Formula aid increased from the prior fiscal year because of a slight decrease in ADM offset by a large decrease in recognized valuation and an increase in the per pupil foundation level. Categorical funding is anticipated to increase due to the increase in special education students and the per pupil funding for the calculation of the special education weighted amount. Transportation is expected to increase in special education transportation due to the increase in special education students. Parity aide is also anticipated to increase. This formula shifts some of the funding to lower wealth districts. The income factor for the School District decreased in fiscal year 2009 from .8093 to .7892. It is anticipated that the School District will receive at least the same amount of excess cost supplement aid as the prior fiscal year.

Restricted grants in aid consist of the bus purchase allowance, career tech monies, and poverty based assistance. For fiscal year 2009, the School District anticipates $31,000 in bus purchase allowance, $150,000 in career tech monies, and $3,173,000 in poverty based assistance monies.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources** (continued)

The State foundation formula and the per pupil amount are subject to change every two years as the Governor and the General Assembly prepare the biennial budget for the State. The biennial budget introduced in the General Assembly for fiscal years 2010 and 2011 includes significant changes in the methodology for funding schools. Initial estimates indicate the School District may receive an increase in State funding. The proposed budget includes a guarantee that school districts will receive 100 percent of the funding received in the prior fiscal year in fiscal year 2010 and 98 percent in fiscal year 2011 and establishes limits on the amount of increases that can be received under the new funding method each fiscal year. Several components of the funding method may be phased in over a four year period. The biennial budget is subject to change as it is discussed in the General Assembly prior to approval. Based on this information, unrestricted and restricted grants in aid are assumed to be the same amount for fiscal years 2010 through 2013 as in fiscal year 2009. The biennial budget is generally adopted in June prior to the start of the new fiscal year beginning July 1.

**C - 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. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first $25,000 in market value from taxation. This expanded exemption will increase State allocation revenue and decrease property tax revenue by an equal amount. No increase has been included in intergovernmental revenues nor a decrease in property tax revenue because the amount cannot yet be determined. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

Historically, the State has exempted the first $10,000 in general business personal property from taxation and reimbursed the School District for the lost revenue. In 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase out period was accelerated. The last reimbursement was in October 2008.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District is fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by House Bill 66. Over the next seven years, beginning in fiscal year 2012, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase outs in House Bill 66 are implemented. For the forecast period, the School District anticipates receiving an increase in the reimbursement for the tangible personal property tax losses through 2011. This reimbursement is offset by the amount received through the State foundation formula because of decreases in the tangible personal property valuations. Fiscal year 2011 is when the amount begins to decline due to the phase out of the tangible personal property loss reimbursement.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources** (continued)

Property tax allocation revenues consist of the following:

| | Forecasted | | | | |
|---|---|---|---|---|---|
| Revenue Source | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Fiscal Year 2013 |
| Homestead and Rollback | $1,223,000 | $815,000 | $815,000 | $815,000 | $731,000 |
| Tangible Personal Property Exemption | 17,000 | 0 | 0 | 0 | 0 |
| Tangible Personal Property Loss Reimbursements | 721,000 | 817,000 | 585,000 | 413,000 | 283,000 |
| Totals | $1,961,000 | $1,632,000 | $1,400,000 | $1,228,000 | $1,014,000 |

**D - All Other Revenues**

All other revenues consist of the following:

| | Forecasted | | | | |
|---|---|---|---|---|---|
| Revenue Sources | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Fiscal Year 2013 |
| Tuition and Open Enrollment | $1,952,000 | $1,873,000 | $1,873,000 | $1,873,000 | $1,873,000 |
| Interest on Investments | 360,000 | 400,000 | 225,000 | 97,000 | 97,000 |
| Fees | 175,000 | 175,000 | 175,000 | 175,000 | 175,000 |
| Payments in Lieu of Taxes | 240,000 | 105,000 | 99,000 | 99,000 | 10,000 |
| Other Revenues | 243,000 | 133,000 | 133,000 | 133,000 | 133,000 |
| Total | $2,970,000 | $2,686,000 | $2,505,000 | $2,377,000 | $2,288,000 |

The School District receives tuition for students attending the School District under open enrollment and tuition for students who reside in another school district and attend the Marion City School District. Open enrollment revenue increased slightly from fiscal year 2008; however, is expected to return to historical levels for fiscal years 2010 through 2013. Other tuition is expected to remain consistent for fiscal years 2009 through 2013.

Interest is based on historical investment practices and anticipated rates and cash balances during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. Interest revenue is anticipated to decrease starting in fiscal year 2011 due to the decrease in the amount of cash available to invest.

Fees consist of athletic fees and student fees. For fiscal years 2009 through 2013, athletic fees and student fees are expected to remain consistent, in the amount of $75,000 and $100,000 per year, respectively. High school and middle school students pay to participate in extracurricular athletics, in the amount of $150 and $75, respectively. The student fee is $50 per student per year.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources** (continued)

Payment in lieu of taxes revenue consists, in part, of income taxes collected from businesses with payroll exceeding one million dollars in the enterprise zone area which includes Dual Rail Industrial Park. The School District does not expect any new businesses to move into this enterprise zone; therefore, the historical average of these receipts was forecasted for fiscal years 2009 through 2012. The agreement expires in fiscal year 2012. The School District also receives payments from two tax exemption agreements with DOFASCO and one with Marion Industries. One of these agreements expires in fiscal year 2009 and one expires in fiscal year 2010.

Other revenues consist of various reimbursements and receipts received by the School District. Other revenues are anticipated to increase in fiscal year 2009 based upon non-reoccurring reimbursements already received. In fiscal years 2010 through 2013, other revenues are expected to be consistent with historical patterns.

**E - Transfers In**

The School District is not forecasting any transfers in for fiscal years 2009 through 2013. In fiscal year 2008, the School District transferred $99,000 into the general fund to close out another fund. No such transfers are expected to occur during the forecast period.

**F - Other Financing Sources**

The School District received a large reimbursement for buses in fiscal year 2007 which is not anticipated to occur again throughout the forecast period. As a result, the School District is not forecasting any other financing sources in fiscal years 2009 through 2013.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**A - Personal Services**

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, and retirement incentive bonuses. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses** (continued)

Staffing levels for the current and last three years are as follows:

| | Fiscal Year 2006 | Fiscal Year 2007 | Fiscal Year 2008 | Fiscal Year 2009 |
|---|---|---|---|---|
| General Fund | | | | |
| Certified | 347 | 358 | 352 | 345 |
| Classified | 111 | 116 | 120 | 113 |
| Total General Fund | 458 | 474 | 472 | 458 |
| | | | | |
| Other Funds | | | | |
| Certified | 76 | 63 | 51 | 82 |
| Classified | 63 | 56 | 55 | 70 |
| Total Other Funds | 139 | 119 | 106 | 152 |
| Totals | 597 | 593 | 578 | 610 |

The School District anticipates staffing levels to remain consistent throughout the forecast period. There are no plans to reduce or increase staff.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases. The contract covers the period October 1, 2007, through September 30, 2009, and allows for a 2 percent increase in base salary in fiscal year 2007, a 3 percent increase in base salary in fiscal year 2008, and a 2.5 percent increase in the base salary in fiscal year 2009. The contract also allows for annual step increases ranging from 3 to 5 percent depending on years of service.

Classified salaries are based on a negotiated contract which includes base and step increases. The contract covers the period July 1, 2007, through June 30, 2010, and allows for a 2 percent increase in the base salary in fiscal year 2008, a 3.5 percent increase in the base salary in fiscal year 2009, and a 2 percent increase in base salary in fiscal year 2010. The contract also allows for annual step increases ranging from .6 to 3 percent depending on years of service.

For certified employees, the School District has assumed a 2 percent base increase for fiscal years 2010 through 2012 and a 1 percent base increase for fiscal year 2013 as well as related step increases for fiscal years 2010 through 2013. For classified employees, the School District has assumed a 2 percent base increase for fiscal years 2011 and 2012 and a 1 percent base increase for fiscal year 2013 as well as related step increases for fiscal years 2011 through 2013. These increases are subject to negotiations and approval by the Board of Education. The likelihood of achieving the base increases for fiscal years 2010 through 2013 is unknown and the realization of the forecast is particularly sensitive to any increase in the base salaries. Should the School District agree to an additional 1 percent increase, it would increase salaries approximately $217,000 beginning in fiscal year 2010 and increase to approximately $273,000 by fiscal year 2013. The additional 1 percent increase in salaries would also increase the School District's pension contribution by approximately $30,000 beginning in fiscal year 2010 and increase to approximately $38,000 by fiscal year 2013. These estimated increases will decrease fund balance by approximately $1,156,000 in fiscal year 2013.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses** (continued)

The School District offers severance pay to its certified and classified employees who are eligible to retire under the provisions set by STRS and SERS. Certified employees receive one-third of their unused sick leave not to exceed a total payment of forty-seven days. Classified employees receive one-third of their unused sick leave not to exceed a total payment of forty-four and one-third days. During fiscal year 2008, the School District had eight certified and one classified employees retire.

The School District offers a retirement incentive to certified employees eligible to retire under STRS. The employee must submit their resignation for retirement to the Board no later than March 1 of the fiscal year in which they plan to retire. A retirement benefit of $20,000 will be paid between July 1 and August 1 of the year following retirement. The retirement incentive expires March 1, 2009. In fiscal year 2008, nine employees took advantage of the retirement incentive. The anticipated certified and classified salaries, retirement incentive payments, and severance payments are presented in the table below.

Presented below is a comparison of salaries and wages for fiscal years 2009 through 2013.

| | Forecasted | | | | |
|---|---|---|---|---|---|
| | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Fiscal Year 2013 |
| Certified Salaries | $20,377,000 | $21,390,000 | $22,293,000 | $22,646,000 | $23,206,000 |
| Classified Salaries | 3,012,000 | 3,110,000 | 3,150,000 | 3,232,000 | 3,284,000 |
| Certified Supplemental and Temporary Salaries | 507,000 | 520,000 | 527,000 | 538,000 | 543,000 |
| Classified Supplemental and Temporary Salaries | 140,000 | 143,000 | 146,000 | 149,000 | 150,000 |
| Retirement Incentive | 130,000 | 380,000 | 380,000 | 0 | 0 |
| Severance Pay | 182,000 | 432,000 | 326,000 | 326,000 | 326,000 |
| Total | $24,348,000 | $25,975,000 | $26,822,000 | $26,891,000 | $27,509,000 |

**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 of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits of employees earning less than a minimum salary amount. Payments are made based upon estimated salaries and wages for each fiscal year. Adjustments resulting from a variance in the estimates and the actual amounts are prorated over the next calendar year. The School District pays the employee retirement contributions for various administrative employees. Retirement costs are forecasted to increase based on the changes in forecasted salaries over the next five fiscal years.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses** (continued)

The School District offers medical/prescription, dental, vision, and life insurance. The School District anticipates increases in medical/prescription costs for fiscal years 2009 through 2013 in the amount of 7.3 percent, 13 percent, 12 percent, 12 percent, and 12 percent, respectively. The rate increase occurs in April; therefore, three quarters of the fiscal year are at one rate and one quarter of the fiscal year is at the increased rate. The School District does not anticipate any change in dental premiums for fiscal year 2009 but increases projected for fiscal year 2010 through fiscal year 2013 are 7 percent, 5 percent, 5 percent, and 5 percent, respectively. This rate increase also occurs in April. Vision insurance costs are guaranteed through October 1, 2012 (FY13). The School District anticipates a 5 percent increase for the remainder of fiscal year 2013. Life insurance costs are guaranteed through July 1, 2011. The School District anticipates a 10 percent increase in fiscal year 2012 and no increase in fiscal year 2013.

The School District pays 100 percent of the costs associated with vision and life insurance. Medical/prescription and dental insurance premiums for employees hired after July 1, 2002, are paid 90 percent by the School District and 10 percent by the employee. For employees hired before July 1, 2002, the employee is responsible for $20 (single)/$30 (family), with the remainder being paid by the School District. For employees working less than five and a half hours a day, hired after July 1, 2007, the employee is responsible for 50 percent of the premium, with the School District paying the remaining 50 percent. For employees working less than five and a half hours a day, hired before July 1, 2007, the employee is responsible for 40 percent of the premium, with the School District paying the remaining 60 percent. For teachers working less than a full day, the employee portion is 10 percent plus the percentage applicable for time not worked.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District pays the entire amount in May. The worker's compensation rate decreased for fiscal year 2009. The School District does not anticipate any significant changes to the workers' compensation premiums throughout the forecast period.

Medicare contributions are 1.45 percent of salaries of employees hired after March 31, 1986. In the forecast period, Medicare is estimated to increase each year due to an increase in total salaries.

The School District does not anticipate any significant changes to unemployment costs or COBRA costs.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses** (continued)

Presented below is a comparison of employees' retirement and insurance for the forecasted period.

| | Forecasted | | | | |
|---|---|---|---|---|---|
| | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Fiscal Year 2013 |
| STRS Retirement | $2,941,000 | $3,184,000 | $3,323,000 | $3,395,000 | $3,462,000 |
| SERS Retirement | 455,000 | 497,000 | 508,000 | 520,000 | 531,000 |
| Medical Insurance | 3,924,000 | 4,267,000 | 4,811,000 | 5,388,000 | 6,035,000 |
| Dental Insurance | 277,000 | 281,000 | 300,000 | 314,000 | 330,000 |
| Life Insurance | 13,000 | 13,000 | 13,000 | 14,000 | 14,000 |
| Vision Insurance | 55,000 | 55,000 | 55,000 | 55,000 | 58,000 |
| Medicare | 349,000 | 369,000 | 379,000 | 386,000 | 394,000 |
| Workers' Compensation | 150,000 | 99,000 | 136,000 | 139,000 | 142,000 |
| Unemployment | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| COBRA | 7,000 | 7,000 | 7,000 | 8,000 | 8,000 |
| Total | $8,176,000 | $8,777,000 | $9,537,000 | $10,224,000 | $10,979,000 |

**C - Purchased Services**

Presented below is a comparison of purchased services expenditures for fiscal years 2009 through 2013:

| | Forecasted | | | | |
|---|---|---|---|---|---|
| | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Fiscal Year 2013 |
| Professional and Technical Services | $485,000 | $510,000 | $535,000 | $550,000 | $550,000 |
| Property Services | 683,000 | 725,000 | 740,000 | 745,000 | 758,000 |
| Travel and Meeting Expenses | 158,000 | 85,000 | 90,000 | 95,000 | 95,000 |
| Communication Costs | 32,000 | 45,000 | 50,000 | 55,000 | 55,000 |
| Utility Services | 1,565,000 | 1,700,000 | 1,850,000 | 2,025,000 | 2,225,000 |
| Tuition | 5,751,000 | 5,900,000 | 6,000,000 | 6,000,000 | 6,000,000 |
| Pupil Transportation | 0 | 2,000 | 2,000 | 2,000 | 2,000 |
| Other Purchased Services | 377,000 | 395,000 | 400,000 | 415,000 | 418,000 |
| Total | $9,052,000 | $9,362,000 | $9,667,000 | $9,887,000 | $10,103,000 |

Professional and technical services are anticipated to increase approximately 5 percent annually for fiscal years 2009 through 2011 based upon historical trends. These costs are expected to level off in fiscal year 2013. The increase in property services from fiscal year 2009 to fiscal year 2010 is due to the replacement of HVAC filters. Travel and meeting expenses reflect a decrease for fiscal year 2010 due to an anticipated Improving Teacher Quality grant for professional development. Utility services are anticipated to increase based on rate increases indicated by the School District's electric, water, and sewer providers.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses** (continued)

Tuition paid to other districts has slight increases projected in fiscal years 2010 and 2011 and then is expected to level off.

**D - Supplies and Materials**

The following table is a comparison of the supplies and materials expenditures for fiscal years 2009 through 2013:

| | | Forecasted | | | |
|---|---|---|---|---|---|
| | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Fiscal Year 2013 |
| General Supplies | $534,000 | $500,000 | $575,000 | $600,000 | $600,000 |
| Textbooks | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Library Books | 32,000 | 32,000 | 35,000 | 37,000 | 38,000 |
| Newspapers and Periodicals | 7,000 | 6,000 | 7,000 | 7,000 | 7,000 |
| Operation, Maintenance, and Repair Supplies | 221,000 | 254,000 | 262,000 | 275,000 | 278,000 |
| Total | $1,094,000 | $1,092,000 | $1,179,000 | $1,219,000 | $1,223,000 |

General supplies are forecasted to decrease $34,000 from fiscal year 2009 to fiscal year 2010 due to costs allocated to the general fund in fiscal year 2009 for Reading First expenditures, a one time occurrence. General supplies costs are forecasted to begin increasing annually starting in fiscal year 2011. The School District has had to restrict expenditures for instructional materials; these expenditures are anticipated to resume in fiscal year 2011.

**E - Capital Outlay**

The acquisition or construction of property, plant, and equipment acquired or used for instructional and support services is recorded as capital outlay. Capital outlay expenditures consist of minor equipment replacements and a new bus annually for fiscal years 2010 through 2013. Capital outlay expenditures are anticipated to be much higher in fiscal year 2009 due to the anticipated purchase of four new buses at a cost of approximately $70,000 each.

**F - Debt Service**

In fiscal year 2006, the School District made the final payment of $19,000 on a bus loan. The School District does not anticipate any new debt payments for the forecasted period.

**G - Other Objects**

Other objects expenditures consist of dues and fees, liability insurance, awards, and amounts paid for students who attend chartered nonpublic schools. Increases from fiscal year 2008 through fiscal year 2010 are the result of amounts paid for students attending nonpublic schools. Expenditures for other objects are forecasted to increase an average of 3 percent over the forecasted period.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses** (continued)

**H - Operating Transfers Out**

The School District has anticipated transfers from the general fund to the athletic and music special revenue fund to subsidize the athletic programs at Harding High School and Grant Middle School.

## Note 8 - 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 cash balance.

Encumbrances for purchased services, supplies and materials, capital outlay, and other objects decreased somewhat in fiscal years 2007 and 2008; however, historically, prior fiscal years have been approximately $800,000 annually. Encumbrances are forecasted at $800,000 for fiscal year 2009 and are expected to remain consistent for the remaining forecast period.

## Note 9 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund 3 percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for capital improvements and repairs. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

**A - Textbooks and Instructional Materials Set-Aside**

The set aside amount required is approximately $750,000 in fiscal year 2009 with an increase of approximately 1 percent each year thereafter. The School District anticipates $800,000 in qualified expenditures in fiscal years 2009 and 2010, $875,000 in fiscal year 2011, and $900,000 in fiscal years 2012 and 2013. Increases in qualifying expenditures in future fiscal years are projected due to an increase in spending for instructional materials. A reserve balance is reported for the difference between the annual set aside and the qualified expenditures each fiscal year.

**B - Capital Acquisition and Improvements Set-Aside**

The set aside amount required is approximately $750,000 in fiscal year 2009 and increasing approximately 1 percent for fiscal years 2010 through 2013. Annual offsets are anticipated from classroom facilities maintenance levies and general obligation bond proceeds. Therefore, no reserve amount is anticipated for the forecast period.

**Note 9 - Reservations of Fund Balance** (continued)

**C - Bus Purchase**

The School District anticipates receiving $31,000 in bus purchase allowance in fiscal years 2009 through 2013. The School District also anticipates purchasing four buses in fiscal year 2009 and at least one new bus for fiscal years 2010 through 2013. As the cost of the buses will be greater than the bus purchase allowance, no reserve is forecasted.

**Note 10 - Levies**

In the past ten years, the School District has placed several levies on the ballot. The type of levy, millage amount, term, and election results are as follows:

| Date | Type | Amount | Term | Election Results |
|---|---|---|---|---|
| November 1999 | Bond Issue-School Facilities | 3.69 mills | 23 Years | Passed |
| November 1999 | Maintenance Levy | .5 mills | 23 Years | Passed |
| March 2000 | Emergency - Renewal | $1,450,000 | 5 Years | Passed |
| May 2002 | Emergency - Renewal | $2,001,000 | 5 Years | Passed |
| March 2004 | Emergency - New | $3,722,210 | 5 Years | Failed |
| August 2004 | Emergency - New | $3,722,210 | 5 Years | Failed |
| November 2004 | Emergency - Renewal | $1,450,000 | 5 Years | Failed |
| November 2004 | Emergency - New | $2,288,976 | 5 Years | Failed |
| May 2005 | Emergency - Renewal | $1,450,000 | 5 Years | Failed |
| May 2005 | Emergency - New | $6,428,972 | 5 Years | Failed |
| August 2005 | Emergency - Renewal | $1,450,000 | 5 Years | Failed |
| November 2005 | Continuing Income Tax | 1% | Continuing | Failed |
| November 2006 | Emergency - Renewal | $2,001,000 | 5 Years | Passed |

**Note 11 - Pending Litigation**

The School District currently has no pending litigation that will materially impact the School District during the forecast period.

**Note 12 - Other Funds**

The School District has numerous other funds that account for resources that are restricted for specific purposes. These funds are anticipated to have sufficient resources to meet their obligations during the forecast period. In addition, there are certain funds that annually rely upon a subsidy from the General fund to meet their obligations. These subsidies are reported as transfers out and have been addressed in Note 7-H.

**MARION CITY SCHOOL DISTRICT**

**MARION 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 28, 2009**