Mary Taylor, CPA
Auditor of State

# Beaver Local School District
# Columbiana County, Ohio

## Financial Forecast
## For the Fiscal Year Ending June 30, 2010

**Local Government Services Section**

Beaver Local School District
Columbiana County

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Mary Taylor, CPA
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Beaver Local School District
Financial Planning and Supervision Commission
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

and

Board of Education
Beaver Local School District
13093 State Route 7
Lisbon, Ohio 44432

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Beaver Local School District, Columbiana County, Ohio, and issued a report dated March 16, 2010. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2010 of $889,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2011 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. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2010, and to the extent the Board appropriates such advances. Currently, it is the Board’s intent not to appropriate any such advances for fiscal year 2010.

Each School District receiving certification of an operating deficit under 3316.08, Revised Code, is required to recommend to the Financial Planning and Supervision Commission whether a tax levy should be placed on the ballot. After considering the recommendation and supporting documentation, the Commission must adopt a resolution either stating their intent to place a tax levy on the ballot or indicating their decision not to place a tax levy on the ballot at the current time. The forecast excludes any revenue that might be generated from a new tax levy.

MARY TAYLOR, CPA
Auditor of State

Unice S. Smith

Unice S. Smith
Chief of Local Government Services

May 6, 2010

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Board of Education
Beaver Local School District
13093 State Route 7
Lisbon, Ohio 44432

**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 Beaver Local School District for the fiscal year ending June 30, 2010. The Beaver Local 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 Beaver Local School District for the fiscal years ended June 30, 2007, 2008 and 2009 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 them. 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

March 16, 2010

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Beaver Local School District
Columbiana County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2007 Through 2009 Actual;
For the Fiscal Year Ending June 30, 2010 Forecasted
General Fund

| | Fiscal Year 2007 Actual | Fiscal Year 2008 Actual | Fiscal Year 2009 Actual | Fiscal Year 2010 Forecasted |
|---|---|---|---|---|
| **Revenues** | | | | |
| General Property Taxes | $5,162,000 | $5,310,000 | $5,484,000 | $5,294,000 |
| Tangible Personal Property Taxes | 290,000 | 214,000 | 114,000 | 25,000 |
| Unrestricted Grants-in-Aid | 9,560,000 | 9,698,000 | 9,688,000 | 9,285,000 |
| Restricted Grants-in-Aid | 111,000 | 82,000 | 85,000 | 53,000 |
| Restricted Federal Grants-in-Aid - SFSF | 0 | 0 | 0 | 590,000 |
| Property Tax Allocation | 706,000 | 805,000 | 937,000 | 1,113,000 |
| All Other Revenues | 1,665,000 | 1,829,000 | 1,657,000 | 1,546,000 |
| *Total Revenues* | 17,494,000 | 17,938,000 | 17,965,000 | 17,906,000 |
| **Other Financing Sources** | | | | |
| Proceeds from Sale of Notes | 0 | 500,000 | 1,000,000 | 2,600,000 |
| Transfers In | 0 | 0 | 7,000 | 0 |
| Advances In | 53,000 | 0 | 0 | 0 |
| *Total Other Financing Sources* | 53,000 | 500,000 | 1,007,000 | 2,600,000 |
| *Total Revenues and Other Financing Sources* | 17,547,000 | 18,438,000 | 18,972,000 | 20,506,000 |
| **Expenditures** | | | | |
| Personal Services | 9,439,000 | 10,022,000 | 9,565,000 | 9,336,000 |
| Employees' Retirement/Insurance Benefits | 3,501,000 | 3,788,000 | 3,615,000 | 4,228,000 |
| Purchased Services | 3,400,000 | 3,446,000 | 3,628,000 | 3,656,000 |
| Supplies and Materials | 721,000 | 818,000 | 673,000 | 663,000 |
| Capital Outlay | 372,000 | 480,000 | 236,000 | 322,000 |
| Debt Service: | | | | |
| Principal-Tax Anticipation Notes | 0 | 500,000 | 1,000,000 | 2,600,000 |
| Principal-Ohio Water Development Authority Loan | 15,000 | 12,000 | 13,000 | 13,000 |
| Interest | 4,000 | 9,000 | 23,000 | 42,000 |
| Other Objects | 284,000 | 284,000 | 320,000 | 329,000 |
| *Total Expenditures* | 17,736,000 | 19,359,000 | 19,073,000 | 21,189,000 |
| **Other Financing Uses** | | | | |
| Operating Transfers Out | 221,000 | 94,000 | 0 | 181,000 |
| Advances Out | 1,000 | 0 | 0 | 0 |
| *Total Other Financing Uses* | 222,000 | 94,000 | 0 | 181,000 |
| *Total Expenditures and Other Financing Uses* | 17,958,000 | 19,453,000 | 19,073,000 | 21,370,000 |
| *Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses* | (411,000) | (1,015,000) | (101,000) | (864,000) |
| Cash Balance (Deficit) July 1 | 1,502,000 | 1,091,000 | 76,000 | (25,000) |
| Cash Balance (Deficit) June 30 | 1,091,000 | 76,000 | (25,000) | (889,000) |
| **Encumbrances** | | | | |
| Actual/Estimated Encumbrances June 30 | 104,000 | 14,000 | 0 | 0 |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30 | $987,000 | $62,000 | ($25,000) | ($889,000) |

See accompanying summary of significant forecast assumptions and accounting policies
See independent accountant's report

## Note 1 – The School District

The Beaver Local School District (the School District) is located in Columbiana County and encompasses the Townships of Elkton, Madison, Middleton and St. Clair and the Villages of Calcutta and Rogers. 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 three elementary schools, one middle school and one high school. The School District is staffed by 82 classified and 147 certificated personnel to provide services to approximately 2,204 students and other community members.

## Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Beaver Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of March 16, 2010, 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 the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance and the school district fiscal stabilization funds and general fund supported debt are included in the general fund.

## Note 4 - Summary of Significant Accounting Policies

### A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue 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 to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

**B. - Fund Accounting**

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

**Governmental Funds**

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

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

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

**Capital Projects Funds** - Capital projects funds account for financial resources used for the acquisition or construction of major capital facilities (other than 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 account for the financing of goods or services provided by one department or agency to other departments or 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 governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

**C. - Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the 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 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 Columbiana County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

## Note 5 - General Operating Assumptions

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

## Note 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 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 Columbiana 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 times. 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 revenue received during calendar year 2010 (the collection year) for real and public utility property taxes represents collections of 2009 taxes (the tax year). Property tax payments received during calendar year 2010 for tangible personal property (other than public utility property) are for calendar year 2010 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".

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 2011 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 appropriate any such advances for fiscal year 2010.

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

| Tax Levies | Year Approved/ Renewed | First Calendar Year of Collection | Last Calendar Year of Collection | Full Tax Rate (Per $1,000 of Assessed Valuation) |
|---|---|---|---|---|
| Inside Ten Mill Limitation (Unvoted) | n/a | n/a | n/a | $4.60 |
| Continuing Operating | 1976 | n/a | n/a | 21.00 |
| Emergency ($1,200,000) | 2005 | 2006 | 2010 | 5.50 |
| Total Tax Rate | | | | $31.10 |

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 real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. 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 revenue amount 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/agricultural real property and commercial/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 20 mills. For the general fund, the effective residential and agricultural real property tax rate is at $25.31 per $1,000 of assessed valuation for collection year 2010, and the effective commercial and industrial real property tax rate is $25.83 per $1,000 of assessed valuation for collection year 2010.

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, House Bill 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).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon information provided by the Columbiana County Auditor. The School District anticipates a decrease of $190,000 from the prior fiscal year due to a $93,000 advance of fiscal year 2010 taxes received in fiscal year 2009 and a slight decrease in assessed values, which decreases the tax revenue received on inside millage.

Tangible Personal Property Tax – Tangible personal property tax is 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 two percent if the total statewide collections of personal property taxes for the second preceding year exceed 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 two percent per year until it is 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 will not be subject to any tangible personal property tax. The School District, based on the last year of collections before the phase out period, lost approximately $714,000, annually. The State of Ohio reimbursed 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).

For fiscal year 2010, tangible personal property tax revenues include telephone property only. The October 2008 tangible personal property tax settlement received in fiscal year 2009 was the last property tax settlement for general personal property taxes. The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

**B. - Unrestricted Grants-in-Aid**

Prior to fiscal year 2010, the State's foundation program was established by Chapter 3317 of the Ohio Revised Code and included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee were provided to address certain policy issues or correct flaws in formula aid were also included in this revenue. The semi-annual payments were 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. The per pupil foundation level was set by State Legislature. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called "building blocks." The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amount for fiscal years 2007 to 2009 are as follows:

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

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal year 2010.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts are guaranteed 99 percent of prior year's State Foundation aid for the current fiscal year. For fiscal year 2010, the Beaver Local School District estimates $9,285,000 in adequacy funding.

In fiscal year 2010, approximately six percent of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see D - Restricted Federal Grants-in-Aid).

**C. - Restricted Grants-in-Aid**

In past years, restricted grants-in-aid consist of career technologies, bus purchase, parity aid and poverty based aid monies. For fiscal year 2010, the School District anticipates $53,000 in restricted grants-in-aid monies for career technologies, and a high school senior to college sophomore grant.

**D. - Restricted Federal Grants-in-Aid**

In 2010, Ohio was allocated $845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The Beaver Local School District, based on estimates provided by the Department of Education, anticipates $590,000 for fiscal year 2010. These funds have limited restrictions on their use. The School District has chosen to use these funds for teacher salaries, supplies and equipment purchases and electric payments.

**E. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. 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 revenues by an equal amount. 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 exempted the first $10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning with tax year 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 for this exemption was in October 2008.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August and are identified as Utility Deregulation payments. For fiscal year 2010, the School District anticipates no public utility reimbursements based on information provided by the Ohio Department of Taxation.

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 will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, 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 fiscal year 2010, the School District anticipates receiving $286,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

| Revenue Sources | Actual Fiscal Year 2007 | Actual Fiscal Year 2008 | Actual Fiscal Year 2009 | Forecasted Fiscal Year 2010 | Variance |
|---|---|---|---|---|---|
| Homestead and Rollback | $577,000 | $689,000 | $815,000 | $827,000 | $12,000 |
| Tangible Personal Property Exemption | 19,000 | 15,000 | 8,000 | 0 | (8,000) |
| Tangible Personal Property Loss Reimbursement | 110,000 | 101,000 | 114,000 | 286,000 | 172,000 |
| Totals | $706,000 | $805,000 | $937,000 | $1,113,000 | $176,000 |

**F. - All Other Revenues**

All other revenues include tuition, transportation, interest, rental income, student class fees, Reserve Officer Training Corps (ROTC), E-rate reimbursements and other revenue.

The increase in open enrollment tuition revenue is an increase in the number of students from other school districts attending the School District. Other tuition includes preschool, regular day school for court order students, summer school and special education. The decrease in other tuition is due to a smaller number of court order students in fiscal year 2010.

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 due to low interest rates and little money available to invest in fiscal year 2010.

The ROTC program is a federally funded program established to train students interested in joining the military after they finish school. The School District forecasts this to increase slightly from the prior year.

The decrease in other revenue is due to West Point Elementary School being flooded in fiscal year 2008 and the School District received insurance reimbursements for the damages in fiscal years 2008 and 2009. This is not expected to occur in fiscal year 2010.

All other revenues consist of the following:

| | Actual Fiscal Year 2007 | Actual Fiscal Year 2008 | Actual Fiscal Year 2009 | Forecasted Fiscal Year 2010 | Variance Increase (Decrease) |
|---|---|---|---|---|---|
| Open Enrollment Tuition | $1,327,000 | $1,501,000 | $1,369,000 | $1,387,000 | $18,000 |
| Other Tuition | 96,000 | 66,000 | 105,000 | 53,000 | (52,000) |
| Extracurricular Transportation | 40,000 | 44,000 | 36,000 | 30,000 | (6,000) |
| Interest | 96,000 | 54,000 | 19,000 | 3,000 | (16,000) |
| Rentals | 5,000 | 3,000 | 2,000 | 2,000 | 0 |
| Student Class Fees | 35,000 | 31,000 | 31,000 | 20,000 | (11,000) |
| ROTC Reimbursements | 29,000 | 31,000 | 31,000 | 33,000 | 2,000 |
| E-Rate | 13,000 | 11,000 | 14,000 | 14,000 | 0 |
| Other | 24,000 | 88,000 | 50,000 | 4,000 | (46,000) |
| Totals | $1,665,000 | $1,829,000 | $1,657,000 | $1,546,000 | ($111,000) |

**G. – Other Financing Sources**

Proceeds from Sale of Notes – During fiscal year 2008, the School District issued $500,000 in tax anticipation notes at 4.23 percent against fiscal year 2008 tax collections. The notes were repaid during fiscal year 2008.

During fiscal year 2009, the School District issued $500,000 in tax anticipation notes at 4.23 percent and $500,000 in tax anticipation notes at 3.66 percent against fiscal year 2009 tax collections. These notes were repaid during fiscal year 2009.

During fiscal year 2010, the School District issued $800,000 in tax anticipation notes at 3.66 percent interest, $600,000 in tax anticipation notes at 3.66 percent, $700,000 in tax anticipation notes at 3.66 percent and $500,000 in tax anticipation notes at 3.82 percent against fiscal year 2010 tax collections.

Transfers In – During fiscal year 2009, the School District transferred in $7,000 due to closing a student activity account. The School District does not anticipate any transfers in during fiscal year 2010.

Advances In – During fiscal year 2007, advances were repaid for a total of $53,000 from other funds.

**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, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative salaries are set by an administrative agreement.

Staffing levels for the last three fiscal years and the forecast period are displayed in the chart below. The amounts represent full time equivalents.

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| General Fund: | | | | |
| Certified | 178 | 145 | 137 | 128 |
| Classified | 68 | 68 | 66 | 62 |
| Total General Fund: | 246 | 213 | 203 | 190 |
| Other Funds: | | | | |
| Certified | 12 | 20 | 8 | 19 |
| Classified | 22 | 25 | 20 | 20 |
| Total Other Funds: | 34 | 45 | 28 | 39 |
| Totals | 280 | 258 | 231 | 229 |

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period September 1, 2008 to August 31, 2011, and allows for a three percent increase in the base salary and step increases ranging from 2 to 4 percent for fiscal year 2010. Certified employees received a three percent increase as well as annual step increases for fiscal year 2010. In prior fiscal years, certified staff received similar salary and step increases. The decrease in certified salaries is due to fewer certified employees and additional employees paid from the grant funds rather than the general fund because of increases in federal grant monies received in fiscal year 2010.

Classified salaries are based on a negotiated contract which includes base and step increases. The contract covers the period July 1, 2007 to June 30, 2010. The contract allows for a 3.5 percent increase in the base salary for fiscal years 2008 through 2010 and step increases ranging from 1 to 2 percent in each year of the contract. Classified salaries are forecasted to increase due to the increase in both the base salary and steps offset by a reduction of four positions.

Substitutes are forecasted to decrease from fiscal year 2009 for both certified and classified staffing due to a need for fewer long term substitutes and fewer employees on staff that would require a substitute.

The School District offers severance pay upon retirement to its certified and classified employees who are eligible to retire under the provisions set by STRS or SERS. Severance pay to certified employees amounts to a maximum of 120 days payable over two years. Payments to classified employees retiring from the School District are equal to one fourth of their unused sick leave, but not to exceed 100 days paid. Severance costs are anticipated to increase due to more staff members retiring during the forecast period as compared with fiscal year 2009.

Presented below is a comparison of salaries and wages for fiscal years 2007, 2008, and 2009 and the forecast period.

| | Actual Fiscal Year 2007 | Actual Fiscal Year 2008 | Actual Fiscal Year 2009 | Forecast Fiscal Year 2010 | Variance Increase (Decrease) |
|---|---|---|---|---|---|
| Certified Salaries | $7,181,000 | $7,599,000 | $7,217,000 | $6,926,000 | ($291,000) |
| Classified Salaries | 1,396,000 | 1,487,000 | 1,442,000 | 1,454,000 | 12,000 |
| Substitute Salaries | 451,000 | 503,000 | 382,000 | 331,000 | (51,000) |
| Supplemental Contracts | 211,000 | 218,000 | 216,000 | 239,000 | 23,000 |
| Severance | 142,000 | 176,000 | 281,000 | 363,000 | 82,000 |
| Other Salaries and Wages | 58,000 | 39,000 | 27,000 | 23,000 | (4,000) |
| Totals | $9,439,000 | $10,022,000 | $9,565,000 | $9,336,000 | ($229,000) |

**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 for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and the actual amounts are prorated over the next calendar year. The School District pays the employee retirement contributions for the superintendent and treasurer. The amount that appears on the schedule below is due to a couple factors. There are fewer employees at the School District as well as retirement costs for certain employees being paid from other funds in fiscal year 2010.

In years past, SERS has been paid six months in arrears in Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. Beaver Local School District has chosen option one; therefore, the School District's retirement costs will increase during fiscal year 2010. The decrease from the reduction in employees is offset by SERS changing its payment guidelines beginning for fiscal year 2011.

Health care, vision and dental insurance rates are fixed by the Board of Education on a yearly basis, from September to August. The monthly payments per insured for health care benefits are as follows:

| **Coverage:** | Effective August 1, 2007 | Effective August 1, 2008 | Effective August 1, 2009 |
|---|---|---|---|
| Family | $1,078.68 | $1,149.38 | $1,172.46 |
| Single | 396.12 | 459.76 | 468.98 |

Health care costs are based on the number of employees participating in the program and the type of coverage (single or family) provided to each employee. The health care program includes medical, prescription drug, dental care, and vision. Health care rates are fixed for a twelve month period. The increase in health care/dental/life insurance is due to the School District making thirteen payments during fiscal year 2010 as well as a two percent increase in premium. During fiscal year 2009, the School District only made eleven payments due to its financial problems.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

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 may choose to pay the entire premium in May or 45 percent in May and 55 percent in August. The School District has chosen to make two payments in prior fiscal years but is forecasting making one payment during fiscal year 2010. The premium for calendar year 2009, due in May 2010, is lower than the prior fiscal year. The workers' compensation calculation for 2010 forecasted an increase in workers' compensation due to an increase in the rate as well as the School District paying the 55 percent in August from the prior billing as well as the entire 100 percent for the billing due in May 2010.

For fiscal year 2010, other benefits include unemployment, tuition reimbursement, uniform cleaning and other insurance. This line item increased from the prior fiscal year. This is due to a combination of an increase in unemployment and tuition reimbursement for fiscal year 2010.

Presented below is a comparison of fiscal years 2007, 2008, 2009, and the forecast period:

| | Actual Fiscal Year 2007 | Actual Fiscal Year 2008 | Actual Fiscal Year 2009 | Forecast Fiscal Year 2010 | Variance Increase (Decrease) |
|---|---|---|---|---|---|
| Employer's Retirement | $1,383,000 | $1,394,000 | $1,381,000 | $1,474,000 | $93,000 |
| Health Care/Life Insurance | 1,973,000 | 2,231,000 | 2,056,000 | 2,444,000 | 388,000 |
| Workers' Compensation | 36,000 | 46,000 | 65,000 | 181,000 | 116,000 |
| Medicare | 82,000 | 91,000 | 93,000 | 98,000 | 5,000 |
| Other Benefits | 27,000 | 26,000 | 20,000 | 31,000 | 11,000 |
| Totals | $3,501,000 | $3,788,000 | $3,615,000 | $4,228,000 | $613,000 |

**C. - Purchased Services**

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

| | Actual Fiscal Year 2007 | Actual Fiscal Year 2008 | Actual Fiscal Year 2009 | Forecast Fiscal Year 2010 | Variance Increase (Decrease) |
|---|---|---|---|---|---|
| Professional and Technical Services | $1,049,000 | $936,000 | $864,000 | $954,000 | $90,000 |
| Property Services | 334,000 | 422,000 | 364,000 | 334,000 | (30,000) |
| Travel and Meeting Expenses | 37,000 | 32,000 | 21,000 | 35,000 | 14,000 |
| Communication Costs | 50,000 | 53,000 | 43,000 | 37,000 | (6,000) |
| Utility Services | 425,000 | 417,000 | 454,000 | 452,000 | (2,000) |
| Trade Services | 36,000 | 27,000 | 24,000 | 32,000 | 8,000 |
| Tuition Payments | 1,459,000 | 1,548,000 | 1,847,000 | 1,801,000 | (46,000) |
| Pupil Transportation | 10,000 | 11,000 | 11,000 | 11,000 | 0 |
| Totals | $3,400,000 | $3,446,000 | $3,628,000 | $3,656,000 | $28,000 |

Professional and technical services increased over the prior fiscal year due to the School District holding bills for services from the Columbiana County Educational Service Center from fiscal year 2009 that were paid in fiscal year 2010. Property services decreased due to a decrease in repairs. Utility services decreased due to a projected rate decrease in natural gas. Tuition payments decreased due to fewer students attending community schools.

**D. - Supplies and Materials**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

| | Actual Fiscal Year 2007 | Actual Fiscal Year 2008 | Actual Fiscal Year 2009 | Forecast Fiscal Year 2010 | Variance Increase (Decrease) |
|---|---|---|---|---|---|
| General Supplies, Library Books and Periodicals | $311,000 | $292,000 | $284,000 | $251,000 | ($33,000) |
| Operations, Maintenance and Repair | 391,000 | 424,000 | 327,000 | 390,000 | 63,000 |
| Textbooks | 19,000 | 102,000 | 62,000 | 22,000 | (40,000) |
| Totals | $721,000 | $818,000 | $673,000 | $663,000 | ($10,000) |

Supplies and materials are forecasted to decrease due to the anticipated decrease in general supplies, library books and periodicals and textbook purchases. This decrease is due to the School District having less cash available to make these purchases.

**E. - Capital Outlay**

The costs of property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. In fiscal year 2010, the School District is forecasting $322,000 in equipment expenditures, which is $86,000 more than in fiscal year 2009 due to the payment of a bus lease out of this line item during fiscal year 2010.

**F. – Debt Service**

During fiscal year 2010, the School District issued $2,600,000 in tax anticipation notes at 3.66-3.78 percent. The notes will all mature and be paid in full as of June 30, 2010. The School District will pay $38,000 in interest on these notes during fiscal year 2010. These notes are being repaid with property tax revenues. The School District also has an outstanding Ohio Water Development Authority loan in which it makes principal and interest payments through fiscal year 2022. The School District will pay $13,000 in principal and $4,000 in interest on this debt during fiscal year 2010.

**G. - Other Objects**

Other object expenditures consist of dues, fees, and liability insurance. Other object expenditures are forecasted in the amount of $329,000. This amount is higher than the prior fiscal year due largely to the School District having lower county board expenditures as a result of the cancellation of non-essential services and fewer School District students being served by the county board offset by an increase in liability insurance.

**H. - Transfers Out**

For fiscal year 2010, $181,000 in transfers is anticipated to be made to the food service fund and the Educational Management Information Systems (EMIS) fund to cover deficits at year-end. Transfers out to the food service fund are expected to be $131,000 and transfers of $50,000 are forecasted to the EMIS fund. In prior fiscal years, transfers were made to the food service fund, permanent improvement fund, uniform school supplies fund and a couple public school support funds.

## 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. The School District closely monitors its encumbrances as it nears the fiscal year end. At the end of the prior two fiscal years, the School District has had minimal and no outstanding encumbrances at fiscal year-end. As a result, the School District is forecasting no encumbrances for fiscal year 2010.

## Note 9 - Reservations of Fund Balance

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

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

The set aside amount for fiscal year 2010 is $361,000. The School District anticipates $242,000 in qualifying expenditures during the current fiscal year and $273,000 in a carryover of excess expenditures from fiscal year 2009. Therefore, no reserve for textbooks and instructional materials is forecasted.

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

The set aside amount for fiscal year 2010 is $361,000. The School District anticipates $499,000 in qualifying expenditures during the current fiscal year that includes lease payments and large repairs to the School Districts buildings and equipment. Therefore, no reserve for capital acquisition and improvements is forecasted.

## Note 10 - Pending Litigation

The School District’s management is of the opinion that there are no issues that would have a material effect on the financial forecast.

**Note 11 - Levies**

Since 1999, 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 |
|---|---|---|---|---|
| May 4, 1999 | Emergency | $1,200,000 | 5 Years | Failed |
| August 3, 1999 | Emergency | 1,200,000 | 5 Years | Passed |
| May 7, 2002 | Permanent Improvement | 1.50 mills | 5 Years | Failed |
| November 4, 2003 | Bond Issuance | 18,000,000 | 5 Years | Failed |
| May 2, 2004 | Emergency (Renewal) | 1,200,000 | 5 Years | Passed |
| August 3, 2004 | Bond Issuance | 18,000,000 | 5 Years | Failed |
| November 2, 2004 | Bond Issuance | 18,000,000 | 5 Years | Failed |
| November 7, 2004 | Bond Issuance | 18,000,000 | 5 Years | Failed |
| May 8, 2007 | Bond Issuance | 18,000,000 | 5 Years | Failed |
| November 4, 2008 | Emergency (Renewal) | 1,200,000 | 5 Years | Failed |
| Februray 3, 2009 | Emergency (Renewal) | 1,200,000 | 5 Years | Passed |

**Note 12 – Financial Planning and Supervision Commission**

On February 11, 2010, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Columbiana County Auditor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must in accordance with the plan. The Commission is in the process of developing the initial financial recovery plan.

**Note 13 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan filed with the Ohio Department of Education in October 2009 covered fiscal years 2010 through 2014 and assumes the continued operation of the School District with a small increase in revenues. The plan assumes staff changes for fiscal years 2011 through 2014. At that time, the School District anticipated an operating deficit of $779,000 for fiscal year 2010 and an accumulated operating deficit of $665,000 by the end of fiscal year 2014. The recovery plan is in the process of being formulated by the Board of Education and the Financial Planning and Supervision Commission. An updated five-year financial plan is required to be filed with the Ohio Department of Education by the end of May 2010 and will cover fiscal years 2010 through 2014.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

Mary Taylor, CPA
Auditor of State

**BEAVER LOCAL SCHOOL DISTRICT**

**COLUMBIANA 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**
**MAY 18, 2010**

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