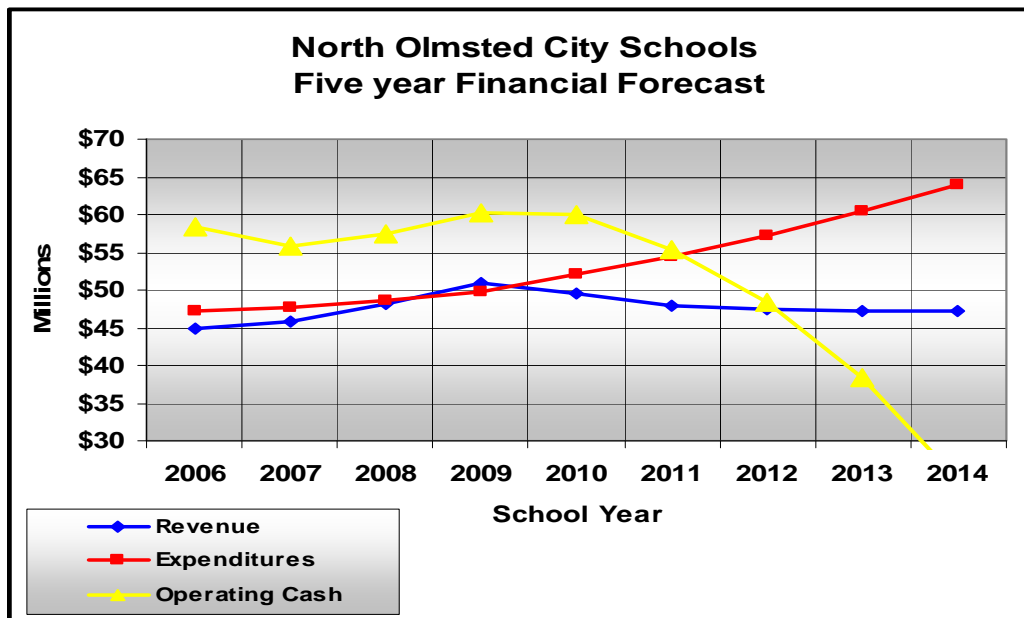


North Olmsted City Schools
Major Assumptions Used in the Preparation of the Five-Year Forecast
Revised January 15, 2010

Financial Summary

Enclosed is a summary of major assumptions used in the preparation the District's Five Year Financial Forecast. The forecast is based upon the District's knowledge of conditions at the time it is transmitted to the Ohio Department of Education. Factors contained in the forecast are subject to change and the forecast may vary significantly in the future based upon changing conditions. If you have any questions or comments concerning the District's financial position, you are encouraged to contact the District's Treasurer, Robert J. Matson. He can be reached by telephone at 440-779-3551, or by email at robert.matson@leeca.org.

Uncertainties in the economy, real estate tax collections and state funding makes this forecast vulnerable to potential large fluctuations in projecting future revenue and expenditures. However, the forecast clearly indicates the District's financial position is deteriorating rapidly. Of the eight years presented in this forecast, the District has operated in the black only once. The District's operating cash will be depleted at the end of the 2010-11 school year and is facing insolvency. I anticipate the Ohio Department of Education will place the District in fiscal emergency status when they review the forecast. A graphic representation of the Five Year Financial Forecast follows:



Real Estate Property Tax Revenue

The District’s primary source of operating revenue (75.3%) comes from the collection of real estate taxes levied on residential, commercial and public utility properties located within the community. The District has experienced limited growth in this source of operating revenue during the past 10 years. The City of North Olmsted is a mature community with very little undeveloped land.

Each year, the District receives an estimate from the Cuyahoga County Budget Commission of the anticipated real estate taxes that will be collected. This estimate serves as the basis for determining future tax collections for financial forecast purposes. Last year’s tax collections (2008 tax year collected in 2009) fell short of the Cuyahoga County Budget Commission’s estimates by \$958,000. This is the seventh straight year the District has experienced a shortfall in tax collections as illustrated in the following chart:

Trends in Real Estate Tax Collection

<u>Tax Year</u>	<u>Budget Commission</u>		<u>Short Fall</u>	<u>Percent Collected</u>
	<u>Estimate</u>	<u>Actual</u>		
2002	\$30,795,000	\$30,423,101	(\$371,899)	98.8%
2003	31,519,000	31,148,900	(370,100)	98.8%
2004	31,563,000	31,436,471	(126,529)	99.6%
2005	31,659,000	31,299,305	(359,695)	98.9%
2006	31,985,000	31,458,928	(526,072)	98.4%
2007	37,812,000	37,153,898	(658,102)	98.3%
2008	37,655,000	36,696,678	(958,322)	97.5%
Seven Year Average.....				98.6%

Because of rising delinquencies, the foreclosure crisis, and unfavorable rulings from the Board of Revision and Board of Tax Appeals, the Budget Commission has established a \$1.6 million reserve for uncollectible taxes for the current school year. This represents a collection rate of only 94.5% of the taxes assessed. The forecast has been prepared assuming only a 94.5% collection rate for the 2009-10 and 2010-11 school years. The collection rate is assumed to increase at an annual rate of 1.25% during each of remaining years of the forecast and will reach 98.25% in the 2013-14 school year.

Tax collections could be reduced further because of the County Auditor’s septennial reappraisal of residential and commercial properties. The Auditor has announced an 11.2% reduction in the market values of residential properties. The actual decline may be significantly higher if additional reductions are granted by the Board of Revision.

The District is also facing the potential loss of \$1,900,000 annually in commercial real estate tax revenue. The owners of these properties have petitioned the Board of Revision and Board of Tax Appeal to reduce the taxable value of these commercial properties located within the City. The Board of Education is unable at this time to access the merits of the petitions filed. Therefore, no provision has been made in the Five Year Financial Forecast for the potential loss of future tax revenue from these petition filings.

The District has experienced a decline in the taxable value of public utility property in 9 of the past 10 years due to of the deregulation of the electric utility industry. In June 1999, the Ohio General Assembly passed Senate Bill 3, which dramatically reduced the assessment rate on electric utility property. The legislation contained a hold harmless provision to prevent the loss of revenues for a five-year period funded by levying a new kilowatt-hour tax on electric users. The District receives \$357,000 annually from the kilowatt tax and the revenue is reported under the heading “Other Unrestricted Grants-in-Aid” for financial forecast purposes.

The five-year hold harmless period ended December 31, 2006. The Ohio Department of Education determines a school district’s eligibility to continue receiving these funds annually, based upon a formula of state aid received the previous year. It is assumed for financial forecast purposes, the District will continue receiving the kilowatt-hour tax reimbursement.

The District faces further reductions in future tax collections from the legislative action of the Ohio General Assembly. Beginning in fiscal year 2008, the taxes assessed on telecommunication property will be phased-out over a period of 5 years. The Ohio General Assembly will reimburse school districts for the loss of this tax revenue during the phase-out period. Commencing in fiscal year 2013, the reimbursement will be phased-out over the next 7 years. Once fully phased-out, the District will lose approximately \$329,000 annually in operating revenue. Because the District will not experience a loss in tax revenue until fiscal year 2013, the amount of reimbursement will be recorded as real estate tax revenue for financial forecast purposes.

Personal Property Tax Revenue

Personal property taxes are assessed on the value of inventory and equipment owned by businesses located within the Community. This tax has been the only source of significant growth in operating revenue for the District during the past 10 years. The District faces a serious financial challenge due to legislative action of the Ohio General Assembly. In June 2005, the Ohio General Assembly passed House Bill 66, which will phase-out the assessment and collection of this tax over a period of 4 years. Once fully implemented, District operating revenues will be reduced approximately \$3.9 million or 8.7% annually.

The District will be partially reimbursed by the State of Ohio for the loss of this revenue over a period of 12 years. The amount of the reimbursement will be reported under the heading “Unrestricted Grants-in-Aid” in the financial forecast. The long-term financial impact of House Bill 66 will be the shifting of approximately \$3.9 million or 4 mills of taxation from the business community to residential homeowners. A chart summarizing the anticipated loss in revenue from the phase-out of tangible personal property tax collection follows:

Schedule of Anticipated Loss in Tangible Personal Property Tax Revenue

Fiscal Year	Estimated Taxes Collected	State Reimbursement	Net Annual Loss in Tax Revenue	Accumulated Loss in Tax Revenue
2006	\$ 3,869,000	\$ 127,853	\$ (127,853)	\$ (127,853)
2007	3,154,675	973,123	(258,798)	(387,097)
2008	2,302,857	1,673,801	(107,658)	(495,201)
2009	1,128,841	2,396,040	343,673	(162,528)
2010	190,000	2,959,000	719,554	568,026
2011		2,884,000	984,554	1,552,580
2012		2,362,000	1,506,554	3,059,134
2013		1,864,000	2,004,554	5,063,688
2014		1,516,000	2,352,554	7,416,242
2015		1,168,000	2,700,554	10,116,796
2016		820,000	3,048,554	13,165,350
2017		472,000	3,396,554	16,561,904
2018		149,000	3,719,554	20,281,458
2019		0	3,868,554	24,150,012

Unrestricted Grants-in-Aid

The primary source of revenue under this heading comes from financial aid from the State of Ohio through the Foundation Program. The Foundation Program has been declining as a major source of operating revenue for the District. During fiscal year 1991, the Foundation Program provided over 26% of the General Fund’s operating revenue. Today, operating revenue from the Foundation Program accounts for only 13.9%.

The formula used to distribute state aid among school districts in Ohio is heavily dependent upon student enrollment and property values. North Olmsted City Schools is considered a wealthy school district in terms of property values and therefore, receives a relatively small allocation of state aid. Increasing property values and declining enrollments have reduced North Olmsted’s basic state aid to state minimum funding levels.

An analysis of the Governor’s proposed biennium budget prepared by the Ohio Office of Budget and Management has indicated the District will receive no increase in basic state financial aid for the next two years. Unfortunately, Ohio’s budget is in shambles due to the Ohio Supreme Court’s rejection of the Governor’s race track slot machine plan. School districts in Ohio are facing a potential 10% to 15% reduction in state funding. Even if the state’s financial crisis is averted, the District will not receive any substantial increase in state funding in the foreseeable future.

The revenue category “Federal Stabilization Supplement” represents federal stimulus funds the state used to subsidize the funding of primary education. These funds are available for only two years and were deposited into a separate non-General Fund account. The State requires school districts to include these funds and corresponding expenditures in the Five Year Financial Forecast. It is assumed that at the end of the two year period, the State of Ohio will have adequate funds to replace these federal stimulus moneys.

Property Tax Allocation

The property tax allocation represents reimbursement from the State of Ohio for real estate tax credits granted to residential commercial property tax owners under the State’s rollback and homestead exemption programs. Historically, revenue from this source has been approximately 12.9 percent of total property tax receipts. In June 2005, the Ohio General Assembly eliminated the 10% rollback credit on commercial real estate. The loss of this revenue is offset by the additional real estate taxes paid by commercial property owners.

All Other Revenue

The primary source of revenue under this heading comes from investment earnings, tuition reimbursements for nonresidential special education students, collection of student fees, and tax abatement revenue sharing agreements. The decline in reported revenue during the past three years is due primarily to the historically low interest rates and delays in the collections of tuition and tax abatement revenue sharing from year to year.

For financial forecast purposes, it is assumed investment earnings will remain at their present levels during the next 12 to 18 months and there will be no major delay in the collection of tuition, student fees and tax abatement revenue sharing. Revenue will begin to decline in fiscal year 2009 as the District’s cash reserves are depleted by the anticipated operating deficits.

Personnel Services

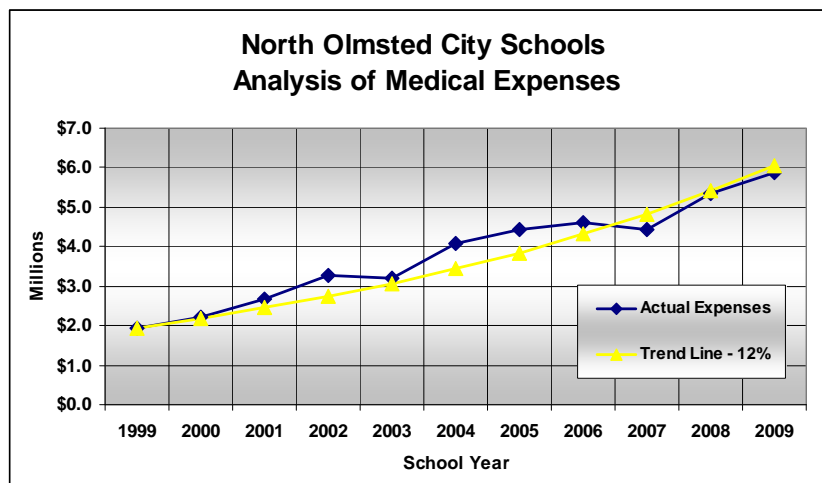
During fiscal year 2009, the Teachers and Labor Unions negotiated a new three year labor agreement. Based upon this agreement, salaries will increase 2.85% in fiscal years 2010 and 2.55% in fiscal year 2011. The remaining years of the financial forecast assumes salary increases of 2.85% based upon average increases negotiated during the previous 10 years. All longevity and education credit increases in salaries as required by contract have been factored into the financial forecast. Because the deteriorating financial condition of the District, it is highly probable the Treasurer will be unable to certify funds are available for in fiscal year 2011 to pay the negotiated salary increases and the collective bargaining agreement will have to be renegotiated.

The forecast assumes no significant changes in the size of the teaching, non-professional and administrative staffs. In July 2009, the Ohio General Assembly passed House Bill 1 which mandated school districts in Ohio to implement all day kindergarten effective for the fiscal 2011-12 year. All day kindergarten would require the hiring of at least 5 additional teachers at an annual cost of \$260,000 to \$300,000. The economic impact of all day kindergarten has not been factored into the forecast.

Employee's Retirement/Insurance Benefits

The District provides employee medical, prescription drug and dental benefits through a self-insurance program administered by Medical Mutual of Ohio. The District limits its liability for medical and surgical claims by maintaining a specific stop-loss insurance deductible of \$100,000. As required by law, the District has accumulated \$1,600,000 in a rate stabilization fund to pay outstanding incurred medical claims and protect the District from unanticipated adverse claims experience. This reserve represents approximately 24.5% of the total annual projected health care costs and based upon an annual actuarial evaluation of outstanding medical claims, appears to be adequate to fund any unanticipated increases medical claims.

The teachers and Labor Unions have agreed to make significant changes in the District's medical plan. Employees will be required to pay 10.0% of monthly premium costs, enroll their spouses into a coordinated benefit program and double the amount of prescription drug co-pays. These savings have been factored into the financial forecast. Health care costs are assumed to increase at an annual rate of 12.0% based upon historic trends as illustrated in the graph below:



Purchase Services, Supplies and Other Expenditures

Anticipated increases in these expenditures are based on historical patterns and no major fluctuation is anticipated. Annual increases of 8% to 10% for utilities and transportation fuels have been integrated into the financial forecast. The District could experience significant fluctuations in future energy costs due to market instability.

The District is in compliance with the budgetary, textbook and capital maintenance set-aside requirements of House Bill 412 and these reserve requirements have been integrated into the forecast.

Capital Outlay

Capital expenditures by the General Fund are minimal. The majority of these expenditures are paid from a separate 1.5 mill permanent improvement levy, which is deposited into a capital improvement fund and is not reflected in this forecast. Capital expenditures from the General Fund are primarily for unanticipated emergency purchases. During fiscal years 2006 and 2007, the General Fund paid \$1.6 million for renovation of the Middle School HVAC system. It is possible the General Fund could be reimbursed for these expenditures from the proceeds of a future capital improvement bond levy.

Other, Advances and Transfers

Anticipated expenditures in these areas are based on historical patterns.

During fiscal year 2008, the Board of Education authorized the Treasurer to establish a budgetary reserve for the next 27th pay period, scheduled to incur in fiscal year 2016. Annual contributions of \$216,000 will be made to the reserve fund. As of October 15, 2009, \$648,000 has been deposited into this reserve fund.

As required by law, the District is making annual contributions of \$100,000 to a Rate Stabilization Fund to pay outstanding incurred medical claims and protect the District from unanticipated adverse medical claims. As of June 30, 2008, the District has accumulated \$1.5 million in this fund. An actuarial evaluation of the outstanding medical claims and adequacy of the reserve fund balance is made annually.

The District transfers approximately \$130,000 annually to subsidize the Food Service Lunch Program. The Administration is performing a comprehensive review of the food service operations to reduce the program's operating deficits.