Louisville City Schools

Stark County

Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2012, 2013 and 2014 Actual;

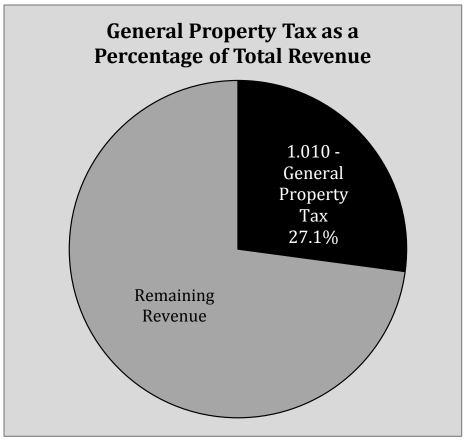
October 2014 Submission		Actual				Forecasted				
		Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Average Change	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
	Revenues									
1.010	General Property Tax (Real Estate)	$5,879,884	$5,902,389	$6,627,922	6.3%	$7,229,189	$7,314,903	$7,376,048	$7,421,050	$6,700,715
1.020	Tangible Personal Property Tax	380,750	401,085	561,978	22.7%	490,458	490,585	490,654	491,398	466,424
1.030	Income Tax									
1.035	Unrestricted Grants-in-Aid	14,106,854	14,008,364	14,029,823	-0.3%	14,009,627	14,230,409	14,184,538	14,043,846	13,954,227
1.040	Restricted Grants-in-Aid	73,299	70,173	239,554	118.6%	363,813	288,884	288,381	288,064	286,959
1.045	Restricted Federal Grants-in-Aid-SFSF	770,643								
1.050	Property Tax Allocation	1,091,532	1,016,255	1,175,385	4.4%	1,325,659	1,330,678	1,336,227	1,338,170	1,204,296
1.060	All Other Revenues	1,077,116	1,387,970	1,604,978	22.2%	1,614,023	1,511,158	1,457,647	1,371,056	1,365,396
1.070	*Total Revenues*	23,380,078	22,786,236	24,239,640	1.9%	25,032,769	25,166,617	25,133,495	24,953,584	23,978,017
	Other Financing Sources									
2.010	Proceeds from Sale of Notes									
2.020	State Emergency Loans and Advancements (Approved)									
2.040	Operating Transfers-In	65,300	59,494	56,431	-7.0%	58,369				
2.050	Advances-In	10,983	8,119	135,000	768.3%	125,000				
2.060	All Other Financing Sources	85,118	23,876		-86.0%					
2.070	*Total Other Financing Sources*	161,401	91,489	191,431	33.0%	183,369				
2.080	*Total Revenues and Other Financing Sources*	23,541,479	22,877,725	24,431,071	2.0%	25,216,138	25,166,617	25,133,495	24,953,584	23,978,017
	Expenditures									
3.010	Personal Services	15,625,489	14,892,535	14,243,685	-4.5%	14,534,456	14,800,107	14,872,843	15,084,038	15,298,231
3.020	Employees' Retirement/Insurance Benefits	6,006,762	5,763,737	5,511,777	-4.2%	5,720,167	6,870,488	7,270,961	7,778,347	8,341,519
3.030	Purchased Services	2,514,518	2,360,909	2,406,958	-2.1%	2,688,229	2,744,857	2,856,585	2,953,049	3,079,050
3.040	Supplies and Materials	636,070	591,224	578,759	-4.6%	670,183	661,190	671,874	682,789	693,941
3.050	Capital Outlay	98,611	5,344	137,777	1191.8%	209,900	200,000	200,000	200,000	200,000
3.060	Intergovernmental									
	Debt Service:									
4.010	Principal-All (Historical Only)									
4.020	Principal-Notes									
4.030	Principal-State Loans									
4.040	Principal-State Advancements									
4.050	Principal-HB 264 Loans	45,000	50,000	50,000	5.6%	55,000				
4.055	Principal-Other									
4.060	Interest and Fiscal Charges	12,250	9,494	6,431	-27.4%	3,369				
4.300	Other Objects	308,167	343,423	345,953	6.1%	334,886	336,404	337,931	339,467	328,939
4.500	*Total Expenditures*	25,246,867	24,016,666	23,281,340	-4.0%	24,216,190	25,613,046	26,210,195	27,037,689	27,941,679
	Other Financing Uses									
5.010	Operating Transfers-Out	65,300	59,494	58,431	-5.3%	58,919				
5.020	Advances-Out	8,119		135,000		125,000				
5.030	All Other Financing Uses	2,956-								
5.040	*Total Other Financing Uses*	70,463	59,494	193,431	104.8%	183,919				
5.050	*Total Expenditures and Other Financing Uses*	25,317,330	24,076,160	23,474,771	-3.7%	24,400,109	25,613,046	26,210,195	27,037,689	27,941,679
6.010	*Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses*	1,775,851-	1,198,435-	956,300	-106.2%	816,029	446,429-	1,076,700-	2,084,104-	3,963,662-
7.010	Cash Balance July 1 - Excluding Proposed Renewal/Replacement and New Levies	4,328,521	2,552,670	1,354,235	-44.0%	2,310,535	3,126,564	2,680,135	1,603,436	480,669-
7.020	*Cash Balance June 30*	2,552,670	1,354,235	2,310,535	11.8%	3,126,564	2,680,135	1,603,436	480,669-	4,444,331-
8.010	*Estimated Encumbrances June 30*	300,430	344,222	509,177	31.2%	350,000				
	Reservation of Fund Balance									
9.010	Textbooks and Instructional Materials									
9.020	Capital Improvements									
9.030	Budget Reserve									
9.040	DPIA									
9.050	Debt Service									
9.060	Property Tax Advances									
9.070	Bus Purchases					75,566				
9.080	*Subtotal*					75,566				
10.010	*Fund Balance June 30 for Certification of Appropriations*	2,252,240	1,010,013	1,801,358	11.6%	2,700,998	2,680,135	1,603,436	480,669-	4,444,331-
	Revenue from Replacement/Renewal Levies									
11.010	Income Tax - Renewal									
11.020	Property Tax - Renewal or Replacement									911,461
11.300	Cumulative Balance of Replacement/Renewal Levies									911,461
12.010	*Fund Balance June 30 for Certification of Contracts, Salary Schedules and Other Obligations*	2,252,240	1,010,013	1,801,358	11.6%	2,700,998	2,680,135	1,603,436	480,669-	3,532,870-
	Revenue from New Levies									
13.010	Income Tax - New									
13.020	Property Tax - New									
13.030	Cumulative Balance of New Levies									
14.010	Revenue from Future State Advancements									
15.010	*Unreserved Fund Balance June 30*	2,252,240	1,010,013	1,801,358	11.6%	2,700,998	2,680,135	1,603,436	480,669-	3,532,870-
	ADM Forecasts									
20.010	Kindergarten - October Count	219	206	230	2.9%	229	210	210	210	215
20.015	Grades 1-12 - October Count	2,952	2,932	2,880	-1.2%	2808	2786	2750	2717	2677

See accompanying summary of significant forecast assumptions and accounting policies
Includes: General fund, Emergency Levy fund, DPIA fund, Textbook fund and any portion of Debt Service fund related to General fund debt

LOUISVILLE CITY SCHOOLS
STARK COUNTY
HOUSE BILL 412
FIVE YEAR FORECAST NARRATIVE
2014-2015 OCTOBER SUBMISSION

Revenue Assumptions

1.010 General Property Tax



For 2015, the Louisville City School District will finally begin to feel the full effect of the emergency levy that was passed in May 2013. The District began collecting the new tax in the second half of fiscal year 2014 and will receive a full year's worth of revenue for 2015, 2016, 2017 and 2018. In 2019, the District will receive the proceeds from the five-year levy for the first half of the fiscal year, but not in the second half unless the levy is renewed. The first opportunity to attempt a levy renewal will come in November 2017. The District has until November 2018 to renew the levy without the loss of any revenue. For forecasting purposes, the renewal of the levy cannot be assumed in any of the line items that currently receive proceeds from the levy (this includes lines 1.010, 1.020 and 1.050). Instead, the value of the levy is held in line 11.020 until it is renewed. This is the reason for the revenue drop in 2019.

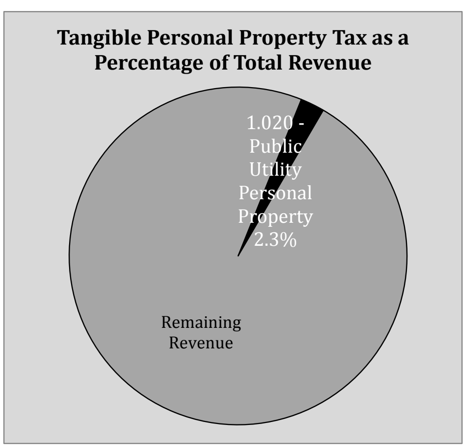
Overall, even without the levy, real estate tax collections are doing well thanks to strong collection rates and increased valuations. Gross collection rates for tax year 2014 were at 100.4%. This marks the third year in a row that gross collection rates were at 100% or above. Current year collection rates for a Class I property for 2014 were down slightly from 2013, (97.47% opposed to 97.5%), but still above 97% for the third straight year. The assumption moving forward is that current year collection rates will stay at 97%. Delinquency collections for the second half of tax year 2014 also reached their highest point in five years at $190,499. Since collection rates are expected to remain strong in the future, delinquency collections are expected to decrease simply because there will be a smaller pool to pull from.

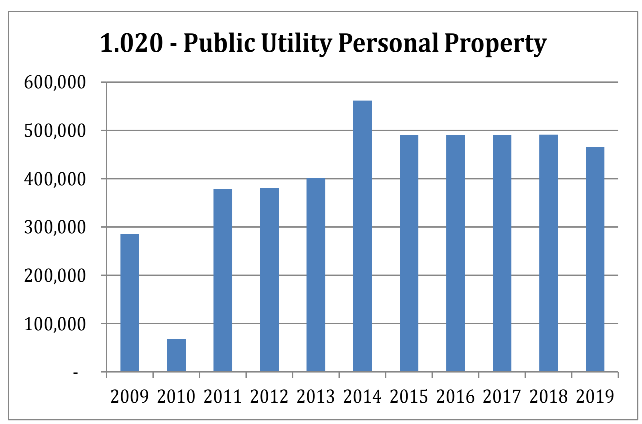
The real estate market within the District appears to be rebounding. Following the 2012 sexennial reappraisal, the District saw its total valuation drop from $341 million to $313 million. For tax year 2013, the total valuation increased by about 1.1% to $317 million. The growth was primarily in industrial valuation, which increased by 14% and agricultural, which grew by 4.9%. The industrial growth is from the increased value for the land that Chesapeake purchased to build its new office building and industrial complex. Industrial valuation should continue to grow for the next two years as the valuation catches up with the completion of the facility. For tax year 2014, total valuation is assumed to grow by another 1%. In tax year 2015, the Stark County Auditor will do a three-year update of property values. Recently, the Auditor reported that real estate sales across the county are up and are up by 8% within the Louisville School District in particular. This is expected to translate into a 3% valuation jump in tax year 2015. Valuation growth is expected to remain modest until tax year 2018, the next sexennial reappraisal, when another jump of 1.5% is assumed.

Another factor driving up valuation is the completion of two tax abatements that the District entered into in previous years. The tax abatements for St. Joseph's Nursing Home and Biery Cheese will both expire during this five year forecast. The expiration will reduce other revenue on the forecast because the District will no longer receive payments in lieu of taxes, but it will increase total tax receipts. The payments in lieu of taxes were for only 25% of the total forgiven tax so the growth in total tax revenue will greatly offset the loss of those payments.

In the end, valuation growth is a driving factor in the real estate tax growth in the forecast. However, it is important to remember that even with all of this assumed positive valuation growth, its project to take until tax year 2018 to reach the $341 million of valuation the District had before the 2012 sexennial reappraisal.

1.020 Tangible Personal Property Tax

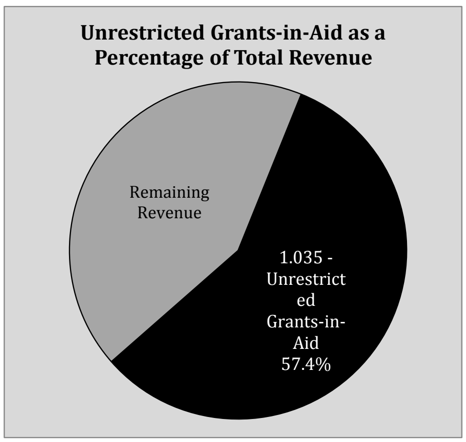


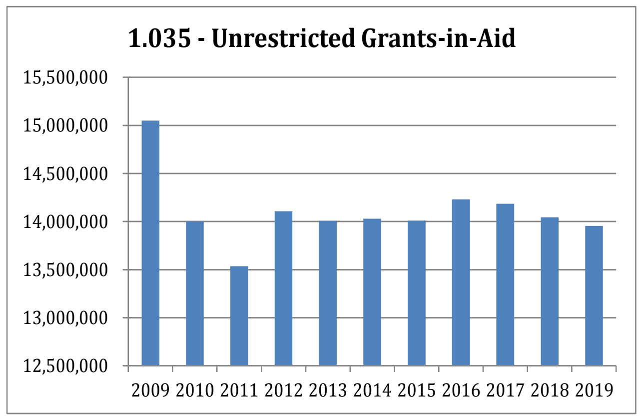


This line item reflects the taxes raised from the only companies still required to pay tangible personal property tax: utility companies. The current estimate of $490,458 reflects a decrease of roughly 1.2% from the actual 2014 amount. Gradual growth is assumed moving forward with a drop off in 2019 due to the emergency levy situation referenced previously. The decrease for 2015 in this line item is misleading. In June 2014, the District received an unexpected delinquency payment of $110,045. A local company that owed back tangible personal property taxes from 2005, 2006, 2007 and

2008 choose to pay off the debt in a one-time settlement payment. This company was by far the largest company of a small handful that still owed the District money for the tax that had been eliminated by the state for most companies years ago. Based on information from the County Auditor's Office, the remaining delinquency amount for the tangible personal property tax is minimal and a similar windfall should not be expected in the future. In general, valuations for the utility companies have been strong in recent years, averaging an increase of about 5% for each of the last four years. Utility companies have been heavily reinvesting in their own infrastructures. The overall valuation growth has allowed for the growth of this revenue stream. Moving forward, the reinvestment taking place is expected to taper off, which will cause the growth in this area to slow.

1.035 Unrestricted Grants-in-Aid





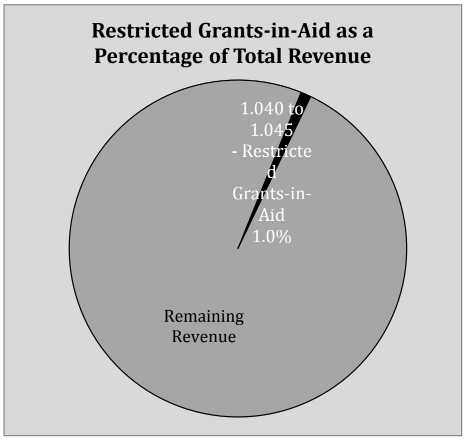
Unrestricted Grants in Aid are determined by the current state funding formula for schools in Ohio. In July, 2013, the State Legislature approved the current funding formula with nine funding components. Two of those components are called the Core Opportunity Grant and Targeted Assistance. Those two components represent about $9.7 million and $1.4 million, respectively, of the $14 million the District receives in unrestricted aid. The Core Aid and Targeted Assistance, along with the rest of the formula, are based around enrollment and the relative wealth of the District in comparison to districts around the state. A three-year average property value per student is calculated and compared to the same calculation on a statewide level. That comparison determines how large of a percentage the District will receive of the $5,800 per student the state has allocated for 2015. The District's percentage for the forecast is 58.27%. The percentage, was actually set in 2014, but the current law states that the final percentage from 2014 will be carried into 2015. The Targeted Assistance funding also uses a percentage but it includes a factor for federal adjusted gross income and the percentage is reset every year. For the forecast, it is assumed that this new funding formula will be used for all five years and the State will provide modest growth in funding levels, about .5% per year. It is important to remember there is currently nothing in law that formally states this current funding method will be carried forward, how percentages will be set or if there will even be percentages. This process will not be set until the next budget biennium, which will not take place until the summer of 2015.

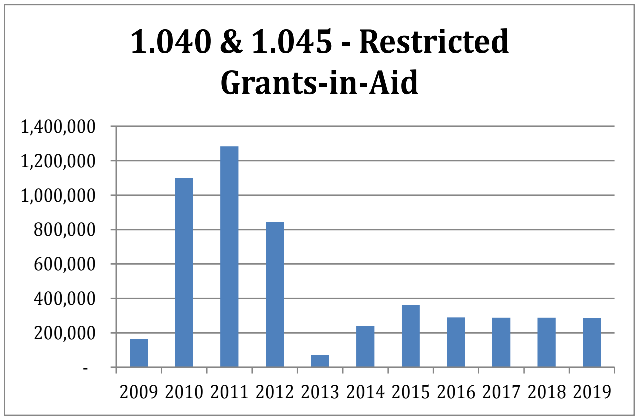
As has been the case in recent years, the enrollment portion of the funding model is going to present a long-term problem for the District. The enrollment for 2015 is projected to drop by another 28 students, from 3,065 to 3,037. This loss is despite seeing projected open enrollment increase by 27. On a positive note, this enrollment loss is less than what was projected last year. Last year, the District projected a loss of 40 students, which is 12 less than the current projection. However, the reason for the loss reduction is clearly because of another jump in open enrollment students. Unfortunately, this is just the continuation of a trend. The District has seen its enrollment drop from a high of 3,315 in 2007 to 3,037 for this year. Meanwhile, open enrollment has gone from 0 in 2007 to the projected level of 180 this year. Moving forward, the expectation is the trend on residential enrollment will continue, but open enrollment is expected to be reduced gradually moving forward. The reasons for this assumption are discussed in the Other Revenue section below. Census data shows that the District should expect to see grade level sizes around 200 to 220 when it was used to seeing grade level sizes of 250 and above. The forecast for 2016 through 2019 is that the District will lose an average of 36 students per year.

Another very important piece of the funding model for the District is Transitional Aid, formerly known as the Guarantee. The State committed that no district will receive less funding in 2014 or 2015 then it did in 2013. Due to the District's drastic drop in enrollment, it fell on the Guarantee in 2014. The District received about $57,000 in transitional aid dollars. Last year, it was assumed that due to the projected losses in enrollment, the District would delve further into the Guarantee for 2015 and beyond. Fortunately, this has not happened. Statewide average wealth per pupil ended up being much higher than initial projections. This made the District look relatively poorer when compared to the State. The result is a projected increase in Targeted Assistance Funding for the District, from $1,279,600 to $1,406,963. The additional $127,363 in funding was enough to reduce the District's projected Guarantee figure to less than $5,000 for 2015. Moving forward the District is not projected to need Transitional Aid based on the assumptions in place, but it will remain very close to that level. One reason why the District is not projected back on the Guarantee moving forward is because there is an assumption there will be a modest decrease in the amount of Transitional Aid the state is offering. The current State Governor has said openly that he does not like Transitional Aid and would like to see it eliminated. If the Guarantee level is not reduced, basic state does not increase by as much as projected or the enrollment decline increases, the District will very quickly fall back on to Transitional Aid.

An additional footnote to this line item is casino revenue. The District is expecting to receive $51 per student, which is roughly what it received last year. The per student funding figure is expected to remain flat for the entire forecast, but the total distribution for the District will decline as enrollment declines. Initial estimates for the revenue casino taxes would generate have proven to be grossly overstated. The facilities are not being built with their maximum number of slot machines, and the second phase of the Cleveland casino is still not complete. Also, new gambling facilities installed at racetracks around the state are providing competition and are not subject to the same tax rules as the casinos.

1.040 Restricted Grants-in-Aid & 1.045 Restricted Grants-in-Aid



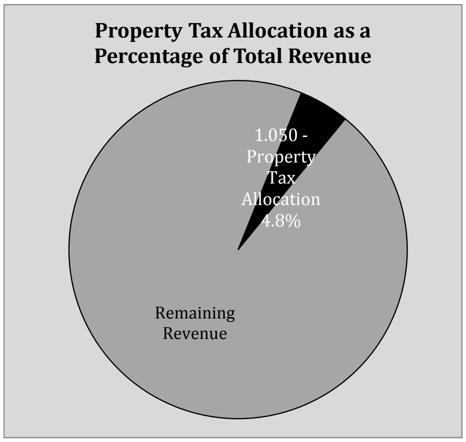


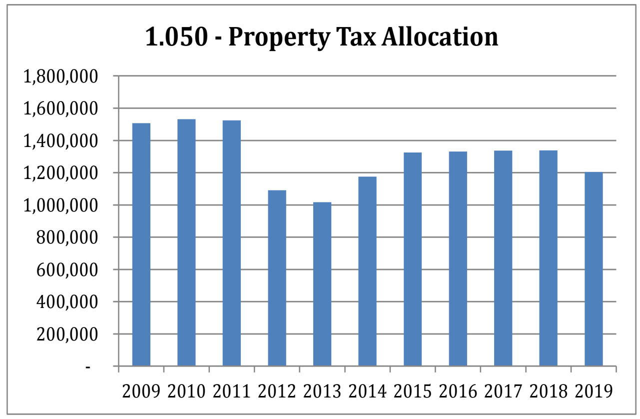
Formerly, this line item, 1.040, was only used to record the state funding for Career and Technical Education and Catastrophic Aide. However, under the new funding model, the state is directing a portion of state aid to provide economic disadvantage funding. The proceeds for that funding are now also recorded here. Similarly to Career and Technical Education dollars, the state has established a list of guidelines for what specifically these dollars can be used for. The District is expecting about $33,455 in Career and Technical Education Funding and $186,158 in economic and disadvantage funding. This would represent a combined increase of about 1.5% for these two areas over last year.

Even with the minimal growth in the two previously mentioned categories, this line item is still expected to have a one-time spike in 2015 due to Catastrophic Aide funding. The District has a few special education students that are very costly to educate. One student in particular costs the District about $100,000 annually in tuition and transportation. As a part of the current state biennium budget, additional money was allocated to the Catastrophic Aide pool to help all districts. This increased pool allowed the District to receive about $74,000 in aide for 2014. Historically, the District had been receiving less than $20,000 annually. Unfortunately, the State was not able to issue the payment of this money timely, thus the fiscal year 2014 allocation was not received until July of fiscal year 2015. Moving forward, it is assumed the 2015 allocation and all future allocations will be received in their proper fiscal years. This will create a doubling affect for fiscal year 2015 causing a revenue spike. It is also assumed that due to the ever growing number of students requiring special education and the severities of their conditions, the District will continue to receive at least $70,000 per year in Catastrophic Aide.

The restricted federal aid line item, 1.045, for 2012 is from a one-time federal grant called the Education Jobs Grant. This grant was awarded in 2011, but the District chose to hold the grant until 2012 to help soften the blow of losing stimulus foundation dollars. The District does not expect any new revenue in this line item moving forward.

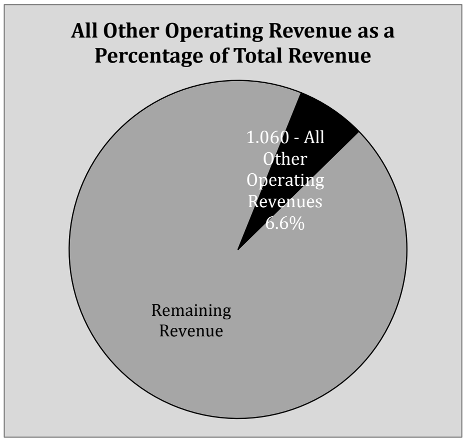
1.050 Property Tax Allocation

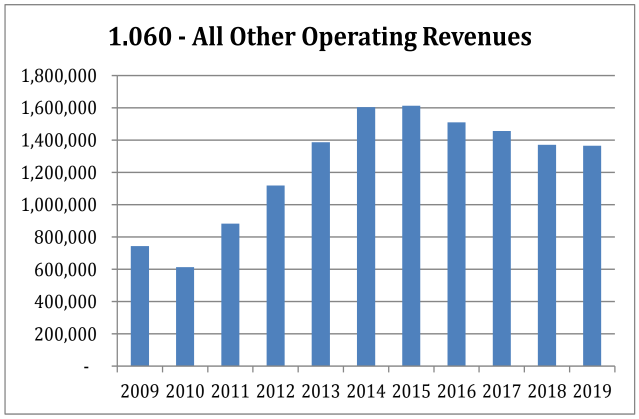




This allocation includes state reimbursements for Tangible Personal Property Tax loss, Homestead Exemption, and 10%/2.5% Rollback. Homestead and Rollback are state deductions taxpayers receive on their local property taxes based on certain requirements. The state in turn reimburses the District for revenue lost from these deductions. Historically, these reimbursements represent about 16.6% of the taxes levied for Louisville Schools, but that percentage is expected to climb this year to about 17.43%. The increase is due to a steady increase in the Homestead Exemption, which is indicative of an aging community. The last state biennium budget made some very drastic changes to these allocations moving forward. New levies passed in November, 2013, and after will not be eligible for the rollback exemption. Fortunately, the District's emergency levy will not be impacted by this when it is up for renewal in 2017 so long as it is a renewal of the same levy with no modifications. Also the Homestead Exemption was modified for anyone not already earning it to include a new income threshold. The change will greatly decrease the number of individuals eligible in the future. Historically, this line item mirrors line 1.010 in growth or decline because it is a function of property tax collections. However, over time, this allocation will start to show decline as line 1.010 starts to increase due to reduced deductions.

1.060 All Other Revenue





Other revenue includes an assortment of revenue streams the District receives. The largest of these streams is funding for open enrollment students. Last year, the District received more than $941,000 for open enrollment. That figure will exceed $1,040,000 for 2015 based on an increase in the number of students accepted. Currently, the Board is planning to revisit the issue of open enrollment. When the District first began accepting open enrolled students, the goal was to accept just enough to offset the number of students lost to charter schools and open enrollment out, so the number of students accepted was capped. However, as the District sunk further and further into financial trouble, the cap on the number of students accepted kept increasing until finally it was removed altogether. Now there is concern that the District has become too reliant on this revenue source. The concern is that the District may have too many open enrollment students, which could cause staff increases or create classroom overcrowding. The positive impact of the increased revenue will be quickly negated if the District is forced to hire more staff. The assumption made here is that the number of open enrollment students accepted will be gradually reduced over the next couple of years. The assumption is that the number will be reduced over time from the current figure of 180 to closer to 150.

Another revenue stream included in this category is the collection of fees charged to students who participate in sports and other activities. These fees help to cover the cost of offering extracurricular programing. These fees do not completely cover the cost of these activities, which have to be subsidized by the general fund. For 2014, the Board eliminated the provision that exempt free and reduced families from these fees and the Board also increased the caps on these fees. These changes resulted in an increase of almost $50,000 in fees collected. In the spring of 2014, the Board studied the history of pay to participate fees, the impact on the District's programs and the impact on the District's families. The Board determined there was very little consistency in how much fees were charged from one year to the next and found that higher fees hurt participation. In an attempt to correct both problems, the Board decided to cut all of the fees in half and lower family caps. Furthermore, the Board committed to leaving the fees set at that amount for the next three years, at which time they will be reevaluated. Accordingly, the amount expected to be collected from these fees for 2015 is roughly half of the amount collected in 2014.

The District also receives reimbursements from Medicaid for a small portion of the costs incurred to provide services to special needs students. This reimbursement is expected to be about $52,000 for 2015

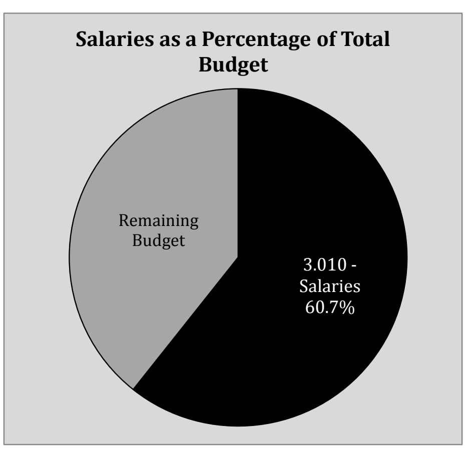
The District did receive a windfall in this line item in 2014 of $64,000 from the Bureau of Workers Compensation (BWC). Over the summer of 2013, the BWC announced an employer rebate in the state of Ohio which generated the unexpected money for the District. Initially, no additional rebates were expected. However, the BWC announced in September that a similar rebate would be award for 2015. The rebate is expected to be about $50,000 and no additional rebates are assumed moving forward.

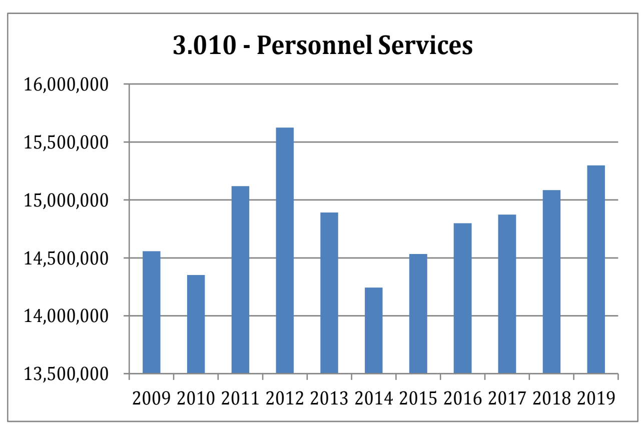
2.070 Total Other Financing Sources

A transfer in is made in 2015. This transfer is used for the debt service of a House Bill 264 Energy Conservation Project the District had previously done. The debt will be completely paid off at the end of 2015, so the transfer will no longer be needed. Also in 2015, an advance in of $125,000 is shown. This advance in is the repayment of a short term loan given to the food service fund from the general fund to meet the food service programs liquidity needs. The food service department underwent a restructuring in 2014, which should allow it to become profitable again and allow it to rebuild its liquidity over time. The food service fund may need a similar advance in 2016, but that cannot be determined until it is seen how 2015 finishes.

Expenditure Assumptions

3.010 Personal Services





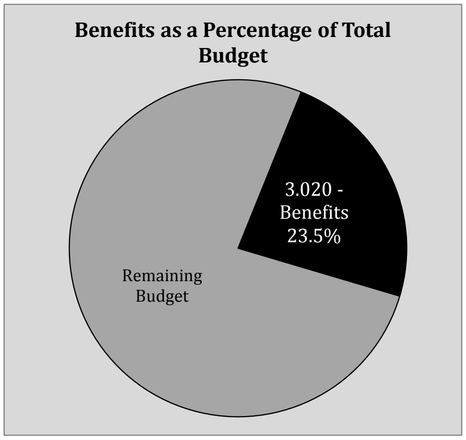
For fiscal year 2015, there were no base increases for certified employees, but there was an index increase. The District is currently in the second year of a three-year contract with the Louisville Educators Association (LEA). Under the contract, all LEA members will receive their index increases for 2016 and 2017. Based on the contract, in July, 2014, and July, 2015, the certified bargaining unit members are also eligible for a lump sum contingency payment of up to 1% of the individual's salary for the immediately preceding school year. The contingency was met for fiscal year 2014 and the lump sum payment was made. The payment was a one-time general fund expense of about $96,000 before pension and Medicare costs. Under current unrestricted state aid revenue assumptions, the expectation is that the contingency will also be met for fiscal year 2015. Accordingly, a similar one-time lump sum payment has been assumed for fiscal year 2016 with an estimated cost of $100,000 before pension and Medicare costs. Furthermore, for 2016, there is a contingency in place that requires a 1% base increase to be put in place if the contingencies are met for both 2014 and 2015. Since the assumption is that both contingencies will be met, the 1% base increase has been assumed for 2016. The first-year cost of the 1% raise is estimated to be $102,000, again before pension and Medicare costs. If unrestricted state aid is insufficient in 2015 to meet the contingency requirement, then certified staff members will receive a contingent base increase up to 1% payable with the start of the 2017 contract year.

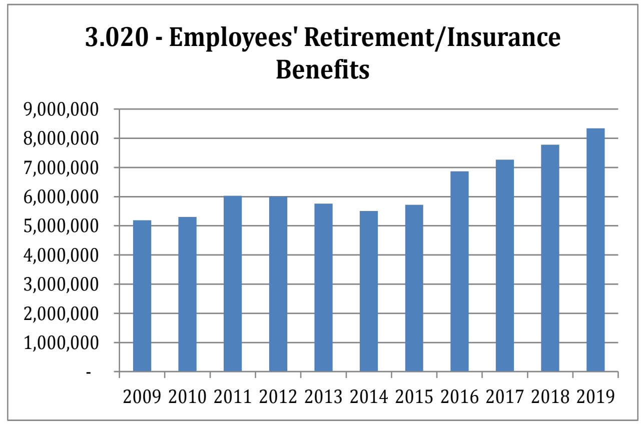
The District's classified union is also in the second year of a three-year contract. The classified contract has a clause that allows them to get any increases the certified union receives. Thus, classified members received their index increase for 2015 and will receive index raises for 2016 and 2017. Classified employees also received the same contingency payment in July. The classified contingency payment cost the general fund about $21,500 before pension and Medicare. Once again, since the expectation is the 2015 contingency will be met, there is another assumed lump sum payment for July 2015. The estimated cost of that one-time payment is $22,100. In the third year, the Board agreed to a true 1% increase without a contingency. That raise is estimated to cost $22,150 for the first year before pension and Medicare.

For the District's administrative and non-bargaining personnel, the Board decided to increase their health insurance contribution to 15% for the 2015 school year. In exchange for that increase, those individuals' salaries were increased by an amount sufficient to cover that cost increase for the first year. The net effect should be cost neutral to the employee and the District for 2015. However, the District expects to see significant long-term savings from the increased health insurance contribution. Due to the salary increase, District administrative personnel were not eligible for the lump sum payment that everyone else received in July, 2014, but the Board did grant them the same contingent payment for July, 2015, and the same potential raise for 2016 or 2017. The cost of the assumed administrative lump sum payment for July 2015 is $13,308 and the cost of the assumed 1% increase in 2016 is $14,250.

Overall, it is very positive from a financial planning standpoint for the District to have a good control on its labor cost for the next two years. For the remaining three years of the forecast, index raises are assumed but no base increases. While the District's overall financial position has improved it is not yet in a position where those types of increases can be assumed. In fact, based on the negative fund balance in 2018 and much larger negative balance in 2019, the District will need to either generate additional revenue or reduce its expenses to ensure steps can remain in place.

3.020 Employees' Retirement/Insurance Benefits

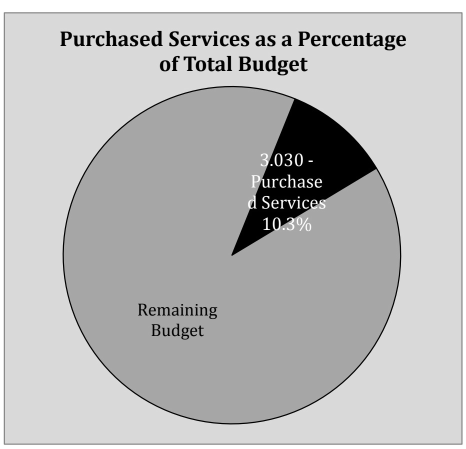


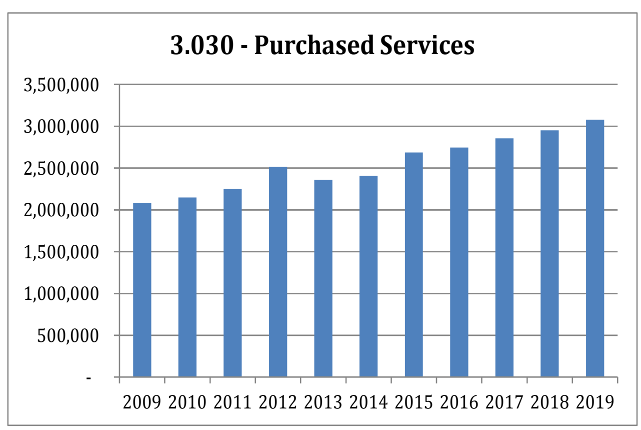


The largest expense for the benefits line is health, vision, dental and life insurance costs. For 2015, insurance costs rose by 5% and the District received the benefit of two premium holidays awarded in fiscal year 2014. For 2016 and beyond, the Stark County Collaborative has let member Districts know to continue to assume 10% growth for each year and no additional premium holidays. Presently, certified employees pay 12% of the health insurance premium cost. In 2017, those employees will move to 13%. All classified personnel pay 10%. In 2015, administrators and non-bargaining personnel began paying 15% of health insurance premium costs. These increases in employee contributions are vital to helping the District counter the large increases in overall health insurance costs.

The second largest expense is for pension costs. Pension costs for the District are 14% of each employee's salary. Certified employees are required to pay 12% of their salary and classified employees are required to pay 10% of theirs to the pension plan as well. No Louisville employee has their employee share of pension picked up by the District. Starting in July, 2015, certified employees will pay 13% of their salary for pension and in July, 2016, that figure moves to 14%.

3.030 Purchased Services





In 2015, the District expects purchase services to climb significantly. There are several large cost items for the District included in this area and all of them seem to be increasing. The largest of these cost items are utilities. Following the completion of the District's construction project, which consolidated buildings and increased efficiencies in the remaining buildings, the District saw a large decline in utilities. However, basic utility supply cost growth and a severe winter have gradually eaten into those savings. Luckily, the District still has lower utility costs than it did prior to the project, but they are growing. The District has been and will continue to look for ways to increase efficiencies wherever possible.

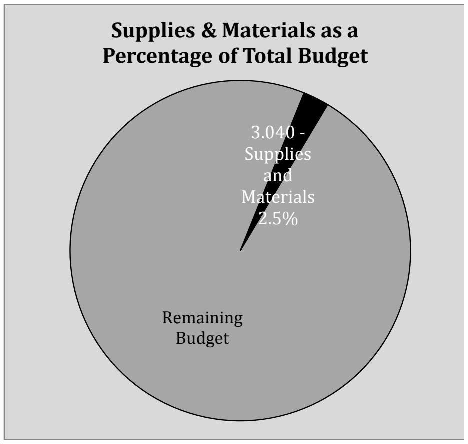
Excess cost is expected to have one of the highest year over year increases at about 35%. The cost of outsourced programs for the District's special education children along with the number of students requiring these programs, are climbing at an alarming rate. The District is seeing an ever increasing number of students requiring specialized programs for their education. Even on the low end, these programs can still cost as much $20,000 per student annually. On the high end, the District has to pay more than $70,000 annually to educate one child. This area is also very hard to predict because typically these students have a higher than normal transient rate. If two or three students either leave or enter into the District during the year, this cost could swing by $100,000 either way. The figure assumed in this forecast is based on the students currently enrolled in the District.

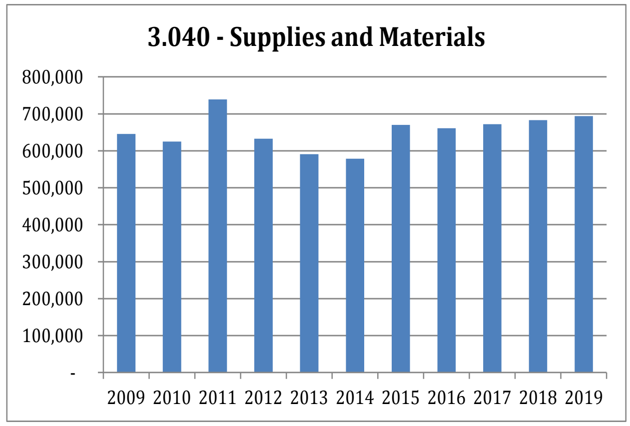
Open enrollment costs are another area of expected growth. The District saw its open enrollment costs grow by over $44,000 last year. Based on historical averages, this cost is expected to grow by 9% moving forward.

Another area of growth concern is the cost of dual credit classes. These are classes that students take at high school, but receive college credit for them as well. The District is charged by the accrediting college for running this program. Before the most recent budget bill, the District was able to charge students, except those on free lunch, a fee to offset those costs. The most recent budget bill eliminated all Districts' ability to charge for this program. Now a program that formerly cost the District less than $20,000 annually is now expected to run closer to $50,000 annually.

A final area of cost growth is some administrative outsourcing. The District lost its Curriculum Director early in the 2015 school year, but too late in the year to find a replacement. For the short term, the District is working with the Stark County Educational Service Center to make sure the duties of that position are being handled. This is causing a short-term increase in purchase services but a short-term decrease in salary expense. The expectation is that a new Director will be hired for 2016 which, will cause that equation to flip for next year.

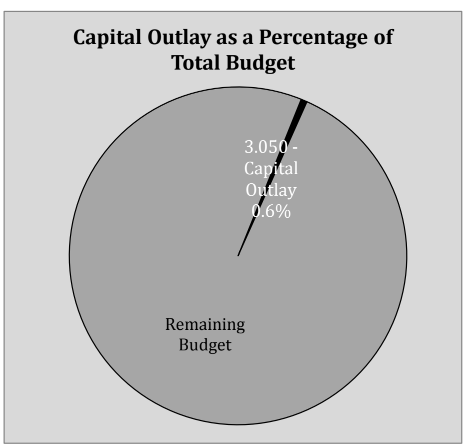
3.040 Supplies and Materials

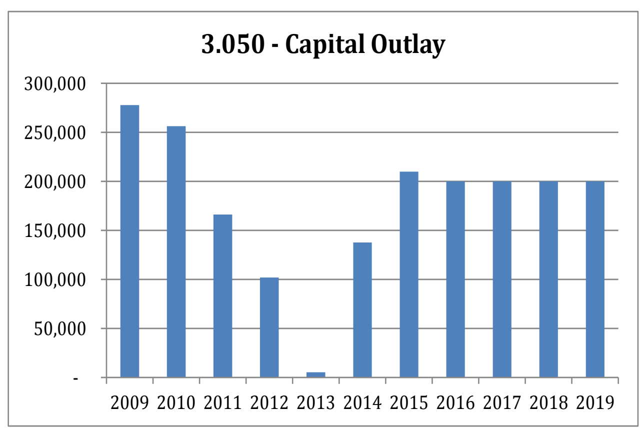




The end of 2014 marked the fourth consecutive year the District spent less on supplies than in the previous year. Cuts to the supply budget have largely been necessitated by the District's overall financial position. Unfortunately, supply cuts have really hurt the District's ability to acquire the tools needed to adequately educate children. In 2015, supply costs are expected to rise as the District begins to replenish and upgrade what is available to its staff. The District is planning to invest some resources into upgrading software, reading material and purchasing some of the supplies that were pushed onto parents to provide in recent years. The District is still not in a great financial position, but it has to start rebuilding inventory.

3.050 Capital Outlay



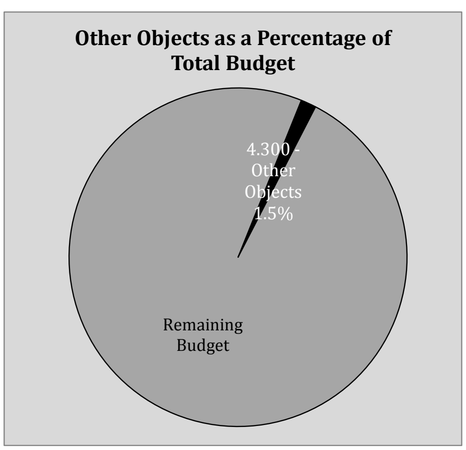


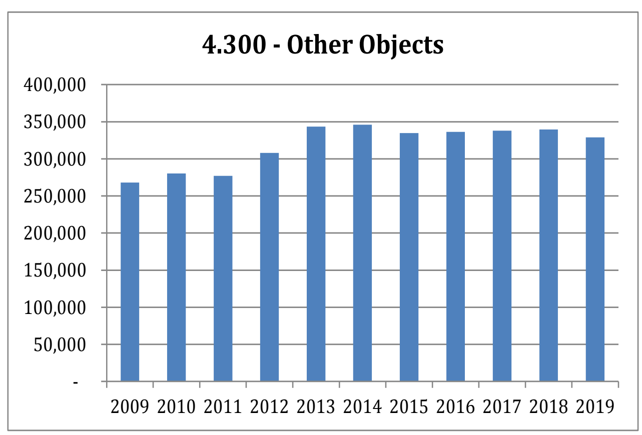
The District is making a concerted effort to spend resources on its capital needs. In 2012 and 2013, the District purposefully limited its capital outlay expenditures due to its overall poor financial condition. In 2013 in particular, the District spent only $5,344 on capital out of its $24 million budget. This was done as a short-term fix to the District's long-term financial problem. The under spending on capital forced the District to stretch equipment and technology far beyond their regular useful lives and threw the District off any regular update cycles. Compounding the problem then and now is the fact that annually, $150,000 of the District's permanent improvement fund is committed to retiring long-term debt. The debt will not be retired until 2018.

Thankfully, the District is now in a better position to address its capital needs. The passage of the levy in May, 2013, and better than expected growth in state aid, has given the District the flexibility of reinvesting in itself, a process that was started in 2014. The District spent just over $137,000 on capital expenditures, which included spending $100,000 on new laptops for student use and new laptops for teachers. Also, $10,400 was spent on four used buses that were an improvement over some of the buses currently in the fleet. This increased spending still only represented about .6% of the District's total operational expenditures for 2014.

The plan moving forward is to allocate at least $200,000 to capital outlay focusing primarily on transportation and technology. The technology purchasing in particular is important because the State has ordered that districts will begin taking State mandated tests online this year. The District simply does not have enough usable machines to meet this requirement without additional spending. Transportation spending is also important because the bus fleet is aging quickly. In recent years, the fleet has been kept operational through the acquiring of used buses, which come at a fraction of the price of a new one. However, each year as more districts face financial hardship, the demand for used buses increases, making it harder to find quality used ones. At some point, the lack of a used bus market will force the District to acquire new buses at a price of $80,000 to $90,000 apiece. In the end, the increased allocation to capital still represents less than 1% of the entire District budget, but it should help the District dig itself out of the hole it created by years of under spending on this area.

4.300 Other Objects





Other Objects are projected to decrease by about 3% for 2015 and then build gradually for the next five years. The reduction is due to a decrease in the Stark County Auditor's tax collection fees. The fees dropped for two reasons. The first is because the District had to pay the election expenses associated with putting its levy on the ballot in

2014, an expense that will not be there in 2015. The second is due to the fees associated with the unexpected delinquency payment discussed in line item 1.020. That was a one-time increase that is not expected moving forward.

5.010 Operating Transfers Out

As previously mentioned, $58,369 of the transfer out shown here is for debt service. The remainder, $550, was transferred to the new football stadium concessions account to establish a change drawer for the concession stand. The District chose to restructure how the concession stand was operated for 2015 and beyond, and this transfer is part of that restructuring.

9.070 Bus Purchase

This $75,566 set aside is being used to help offset the cost of future bus purchases.

General Comments

The District has managed to stabilize its financial picture for the immediate future. The District was on the brink of a financial collapse just over a year ago. From 2011 to 2013, the District spent $4.1 million more than it brought in. Revenues over that period plummeted by $700,000 due largely to cuts in State Aid. The revenue problem was then compounded by a $28.2 million drop in property valuation in one year. Meanwhile, salary expense reached its highest point at $15.6 million in 2012. Last year marked the beginning of a turnaround. The District's salary expense fell to $14.2 million for the year and the collection of the recently passed levy began to bring revenues back up. The result was a badly need $956,000 increase in the District's ending fund balance. Moving forward there are still issues for both revenue and expenses that need to be monitored and planned for.

Property valuation is starting to rebound, which is positive, but it will take years for the District to regain what it loss in one reappraisal. Also, the District's emergency levy will be up for renewal in just three years. The levy provides much needed local support so the District can continue to produce at high levels. After taking more than 20 years to get a new operating levy passed, there are certainly no guarantees when it comes time to renew the levy. The overall financial health of the State seems to have improved to the point that funding for schools seems to be at least stabilized. However, funding for public schools will always be up for debate in Columbus and subject to the politics of the moment. State aid represents 57.4% of the District's revenue, so it is unfortunately very subject to those politics. Other revenue continues to be up due to open enrollment. Open enrollment is a helpful option to use the excess capacity the District has due to the loss of residential enrollment. However, open enrollment needs to be monitored to make sure it does not start to drive up educational costs. Furthermore, open enrollment students do not have the same level of investment in the community that residential students do. There are fewer guarantees that those students will be back from one year to the next.

On the expense side, the District is still trying to recover from the drastic cuts that needed to be made. The cuts were not good for education for the long term, but were necessary to survive. The goal now is to rebuild some of what was lost in a controlled manner so as to keep in line with the District's revenue streams. District employees endured a complete wage freeze for two years, increases to health insurance costs and cuts in staffing. Moving forward, the District is trying to control personnel costs, but it needs to offer a compensation package that will retain and attract the highly qualified employees the District is used to getting. Index freezes cannot be taken lightly and, under this pay structure, should only be used in the direst circumstances. In addition, the District was forced to ignore its capital and supply needs. The District needs to reinvest in these two areas to gradually rebuild its tools and resources. All of this needs to be done while knowing special education costs are growing at an uncontrollable and alarming rate. In general, the District needs to squeeze everything it can out of every dollar spent, examine every position that opens and try to eliminate through attrition, evaluate programs to see if they are worth continuing, and take advantage of every opportunity to increase efficiency. If these steps are taken, the District's financial wellbeing should not stand in the way of its academic success.