JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT PERFORMANCE AUDIT

OCTOBER 8, 2002

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

To the Residents and Board of Education of the Twin Valley Community Local School District:

On March 14, 2002, the State Superintendent of Public Instruction placed Twin Valley Community Local School District (TVSD) into fiscal caution. In accordance with the provisions of Ohio Revised Code (ORC) §3316.041, the Auditor of State initiated a performance audit on TVSD. The four functional areas assessed in the performance audit were financial systems, human resources, facilities and transportation. These areas were selected because they are important components of District operations which support its mission of educating children, and because improvements in these areas can assist TVSD in eliminating the conditions which brought about the declaration of fiscal caution.

The performance audit contains recommendations which provide cost savings, one-time revenues and efficiency improvements. The performance audit also provides an independent assessment of TVSD's financial situation and a framework for the District's financial recovery plan. While the recommendations contained within the performance audit are resources intended to assist TVSD in developing and refining its financial recovery plan, the District is also encouraged to assess overall operations and develop other recommendations independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the fiscal caution designation; a district overview; the purpose and objectives of the performance audit; and a summary of findings, commendations, recommendations and financial implications. This report has been provided to Twin Valley Community Local School District and its contents discussed with appropriate District officials and management. The District has been encouraged to utilize the results of the performance audit as a resource in improving its overall operations, service delivery and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or the toll free number in Columbus at (800) 282-0370. This performance audit can also be obtained on-line through the Auditor of State's website at http://www.auditor.state.oh.us/ by choosing the "On-Line Audit Search" option.

Sincerely,

JIM PETRO
Auditor of State
October 8, 2002

Executive Summary

Project History

Pursuant to Ohio Revised Code (ORC) §3316.031(A), the state superintendent of public instruction, in consultation with the Auditor of State (AOS), has developed guidelines for identifying fiscal practices and budgetary conditions that, if uncorrected, could result in a future declaration of a fiscal watch or fiscal emergency within a school district. ORC §3316.031(B)(1) further stipulates that the state superintendent may declare a school district in fiscal caution based upon a review of a school district's five-year forecast. According to ORC §3316.042, AOS may conduct a performance audit of a school district in a state of fiscal caution, fiscal watch or fiscal emergency and review any programs or areas of operations in which AOS believes that greater operational efficiencies or enhanced programs can be achieved.

Twin Valley Community Local School District (TVSD) was placed in fiscal caution on March 14, 2002 because the District's ending fund balance for FY 2001-02 was forecasted to be $39,118. This equates to less than 2 percent of the current year projected revenues, a qualification for fiscal caution status. However, TVSD completed FY 2001-02 with a positive ending fund balance of approximately $435,000 as a result of cost and staffing reductions.

Pursuant to ORC §3316.031 and ORC §3316.042, AOS initiated a performance audit on TVSD. Based upon a review of TVSD information and discussions with the superintendent and the treasurer, the following four functional areas were included in the performance audit:

- Financial Systems;
- Human Resources;
- Facilities; and
- Transportation.

District Overview

TVSD is a rural school district in Preble County. The District encompasses 58 square miles. In FY 2001-02, TVSD had an ADM of 1,055 students and had a total of 117.2 FTE employees, including 52.4 FTE teachers. TVSD has one school building that includes facilities for all grade levels from kindergarten through 12th grade. In FY 2001-02, TVSD met 16 of the Ohio Department of Education's (ODE) 27 performance standards. TVSD received the designation of continuous improvement for meeting 16 performance standards, as defined by ODE. TVSD's total per pupil operating expenditures (governmental funds) of $6,521 in FY 2001-02 was higher than the average of the peer school districts of Liberty Center, Spencerville and Tri-County North.

In general, TVSD appears to operate in an efficient and effective manner. TVSD is highly aware of, and proactively approaching, its financial difficulties. Since being placed in fiscal caution in March 2002, TVSD placed a 0.75 percent school district income tax levy on the ballot in May 2002, which was approved by the voters. In addition, TVSD received $328,000 from the demutualization of one of its insurance providers, Anthem Health Insurance, which it will use to offset the cost of health insurance benefits in FY 2002-03. As well as realizing an increase in revenues, TVSD approved numerous expenditure reductions to become effective in FY 2002-03. These expenditures reductions will total approximately $170,000 and include staffing reductions and materials and supplies expenditure reductions. Continuing to be proactive in addressing its financial difficulties by considering the recommendations in this performance audit will allow TVSD to further stabilize its current and future financial situation.

While the District has been proactive in approaching its financial difficulties, some of the forecast assumptions do not appear to be appropriate, and modifications have been included in. the audit recommendations. With adjustments to its forecast assumptions and implementation of the other recommendations made in this report, TVSD will still incur net operating losses beginning in FY 2005-06. The District sought a 1 percent income tax in November 2001 which would have generated sufficient revenues throughout the forecast period. However, the community did not approve the 1 percent income tax levy. The district placed a 0.75 percent income tax issue on the ballot in May 2002 which was subsequently approved. TVSD recognized that the .75 percent income tax might not produce sufficient revenue to carry the district through the forecast period. Failure to implement the recommendations and changes in assumptions could accelerate TVSD's financial problems.

Objectives & Methodology

The goal of the performance audit process is to assist TVSD management in identifying cost savings with the objective of eliminating conditions which brought about the declaration of fiscal caution. The performance audit is designed to develop recommendations which provide cost savings, revenue enhancements and/or efficiency improvements. These recommendations comprise options that TVSD can consider in its continuing efforts to stabilize the District's financial condition. A second objective of the performance audit is to perform an independent assessment of the school district's financial situation, including development of a framework for a financial recovery plan. TVSD's financial forecast, along with its accompanying notes and assumptions, is also assessed for reasonableness.

To complete this report, the auditors gathered and evaluated a significant amount of data pertaining to the various reporting areas, conducted interviews with various individuals associated with TVSD and assessed requested information from selected peer districts. Liberty

Center Local School District (LCSD), Spencerville Local School District (SLSD) and Tri-County North Local School District (TCSD) were identified as peers based upon comparable districts identified by the ODE, review of various demographic information and input from TVSD personnel. Best practices data was also used from ODE, the State Employee Relations Board (SERB) and other school districts for additional comparisons. Numerous interviews and discussions were held at many levels at TVSD and with groups of individuals involved internally and externally with the District.

Noteworthy Accomplishments

The performance audit report and executive summary contain a number of noteworthy accomplishments pertaining to TVSD. The following are the key noteworthy accomplishments.

- TVSD has made noteworthy efforts to regain financial stability. TVSD's diligence in communicating the District's financial problems to the Board and the community, has led to the District being able to increase revenues by earning voters' approval for a school district income tax. Likewise, the district has decreased expenditures by receiving the approval of the Board for various spending reductions. TVSD's attention and responsiveness to its financial situation will help the District realize a significant increase in the ending General Fund balance as compared to previous ending fund balance projections.

- TVSD uses the International Sanitary Supply Association (ISSA) standards as guidelines for its custodial staffing and operations. Use of ISSA standards allows TVSD to have a large square footage per custodian while maintaining the cleanliness and the safety of the facility. In addition, the detailed assignment lists derived from ISSA standards allow for substitute custodians to complete job assignments with minimal instruction, which increases substitute productivity.

- TVSD's custodial substitute policies generally result in cost savings for the District. TVSD's use of other District employees to fill substitute custodial and maintenance positions allows the District to meet SERS minimum retirement benefits surcharges. In addition, TVSD's use of substitute employees for grounds work rather than hiring an additional employee minimizes overhead costs.

- As illustrated in **Table 5-3**, TVSD has a lower transportation cost per mile and a lower transportation cost per student in comparison to its peer districts. As a result, TVSD is spending fewer financial resources on support services and is able to direct these resources to educational services.

Key Recommendations

The performance audit report and executive summary contain a number of recommendations pertaining to TVSD. The following are the key recommendations.

- TVSD should analyze and use the financial recovery plan outlined in **Table 2-14** to evaluate the recommendations presented within this performance audit and to determine the impact of the related cost savings on the District's financial condition. Based on the forecast that TVSD is currently presenting, the District will have an ending General Fund balance in FY 2005-06 of approximately $57,000. This balance is less than two percent of total revenues and could lead to being placed in fiscal caution status in the future. TVSD's forecast assumptions do not appear to portray an accurate illustration of its future financial situation. Therefore, TVSD should consider adjusting its assumptions to implement the recommendations in this performance audit which projects a revised ending General Fund balance in FY 2006-07 of approximately $583,000, to avoid future financial difficulties and better position itself to manage its financial condition.

- TVSD should review its staffing in the educational service personnel (ESP) classification for a potential reduction of 2.0 FTE. Classifications which should be reviewed for possible reductions include art teachers, music teachers, physical education teachers and counselors. However, before the District makes any reductions, it should determine the potential impact of reductions on the attainment of TVSD's mission and goals. Additional factors which TVSD should consider are the impact on student contact time as well as the financial situation of the district. TVSD could generate an estimated annual cost savings of approximately $99,800 as a result of reducing its educational service personnel by 2.0 FTE.

- TVSD should assess its staffing levels in the teaching aide classification for a potential reduction of 3.5 FTE (4 individual positions) in the specific areas of study hall monitoring and cafeteria/playground supervision. The duties performed by these four positions do not require a degree. Two of the peer districts actively use parents, professionals, retirees, high school students and other community-service minded people as volunteers in their school districts. TVSD should examine the feasibility of replacing these positions with volunteers. TVSD could generate an estimated annual cost savings of approximately $56,000 as a result of reducing its teaching aide personnel by 3.5 FTE, and these cost savings could be reallocated to other educational areas within TVSD.

- TVSD should not use substitutes for custodial employees during summer breaks. Instead, the District should require custodial staff to stagger their leaves so the District does not have more than two custodians on leave at the same time. TVSD could realize an estimated annual cost savings of $5,600 by eliminating the use of summer custodial substitutes.

- TVSD should minimize the payment of overtime to substitute employees. The District should monitor each substitute's work schedule to ensure these employees do not work over 40 hours in one week. If it appears that the substitute is going to work more than 40 hours in one week, the District should attempt to adjust special trips or substitute duties to avoid overtime costs. Based on the substitute overtime costs incurred during FY 2001-02, TVSD could realize an estimated annual cost savings of $2,400 by eliminating overtime for its substitute employees.

- TVSD should adopt a 10-year bus replacement plan. If TVSD implements a 10-year bus replace plan, the District will have more buses with lower miles. In turn, a newer bus fleet will lower TVSD's annual operating and maintenance costs. Based upon the average price for a new bus, TVSD would incur additional annual expenditures of approximately $55,000 if it were to purchase a new bus each year. Because of TVSD's current forecast (see the **financial systems** section), TVSD would incur the additional expenditure in FY 2003-04 and FY 2005-06.

- TVSD should consider reducing the number of spare buses from its current inventory of five buses to two buses. The reduction of three spare buses from its fleet will reduce the District's associated operational costs of insurance and maintenance and bring TVSD in line with general industry standards. In addition, the reduction of three spare buses may also generate additional revenue as a result of selling the buses through a public offering. Based on the District's FY 2001-02 transportation data, the reduction of three spare buses would result in an estimated annual cost savings of approximately $4,500. Assuming TVSD sells the three buses for an amount equal to that received by Fayette County Public Schools in Lexington, Kentucky, TVSD would also receive a one-time revenue of approximately $4,500.

Additional Recommendations

The remainder of this executive summary highlights additional recommendations from the audit report. In addition to the operational recommendations, TVSD should improve the assumptions used in its financial forecast to better project its financial condition in future years and delay the operating losses that begin in FY 2005-06 (see **Table 2-14**). A summary of the revised assumptions as well as additional recommendations are presented in the following.

Financial Systems

- TVSD should ensure that the accompanying notes and assumptions used to calculate the forecast include an adequate description of the District's income tax. The treasurer should consider including a table to explain how the income tax is being forecasted. In addition, TVSD provide taxpayers with a detailed description of how the income tax revenue will be spent.

- TVSD should evaluate the assumption being used to forecast the Other Revenue line item and consider changing the assumption so that it projects this line item more accurately. In addition, TVSD should ensure that the accompanying notes and assumptions used to calculate the forecast include an adequate description of those receipts that comprise Other Revenue, as well as a description of exactly how the other revenue line item is being forecasted.

- TVSD should update the accompanying notes and assumptions to the five-year forecast to reflect the renegotiated salary increases for certificated and classified staff. The agreements state zero percent, 5 percent and 5 percent increases for all certificated and classified personnel in FY 2002-03, FY 2003-04 and FY 2004-05, respectively. These agreements have a material impact on the five-year forecast and should be incorporated into the five-year forecast immediately upon ratification.

- TVSD should assess the effectiveness of the current assumption being used to forecast Capital Outlay expenditures and consider revising the assumption to one that allows for more accurate forecasting. Due to large expenditure reductions in FY 2001-02, TVSD may find that it needs to compensate for purchases it could not make in FY 2001-02 in future years. Therefore, TVSD should consider using a 6 percent annual increase in capital outlay expenditures, rather than the current assumption of a 3 percent increase.

- TVSD should clarify the assumption used to forecast the Other Objects expenditure category. The District should consider using the assumption that projects nominal increases of 3 percent each year for Other Objects and reword the conflicting assumption in the notes to the five-year forecast. In addition, TVSD should ensure that it provides an adequate description of those expenditures that are included in Other Objects.

- TVSD should closely examine the spending patterns indicated in **Table 2-9** and **Table 2-10** and consider reallocating the District's revenue toward those programs and priorities that have the greatest impact on improving the student's education and proficiency test results. Furthermore, TVSD should analyze the cost reductions recommended in the human resources, facilities and transportation sections of this report to aid the District's efforts to improve its financial well-being.

Human Resources

- TVSD should develop policies and procedures to ensure that accurate reports are prepared and reconciled before being submitted to the Ohio Department of Education (ODE) and the Educational Management Information Systems (EMIS).

- TVSD should develop a system to track special education revenues and expenditures in order to determine if its available resources are being maximized. Better tracking of special education revenues and expenditures could help identify areas in which additional General Fund resources may be available to be used in other areas within the District.

Facilities

- TVSD should design an electronic work order request form that can be accessed by employees via the Intranet or e-mail system. The electronic format would allow the transportation/maintenance supervisor to receive work order requests immediately. On the form, space should be provided for the assigned employee to record the amount of time used to complete the request and the parts and supplies used. The building repairs and completed work order information should be recorded in a database to allow for easy tracking and analysis. In the future, the database could be used to develop easily accessible, comprehensive building repair records.

- TVSD should develop a work order log form to track maintenance requests and the time and resources used to complete each work order. TVSD should also require the maintenance staff to document what repairs and tasks have been completed each day. The transportation/maintenance supervisor should review logs periodically to monitor productivity and maintenance expenditures.

- TVSD should assess its landscaping and grounds keeping expenditures to determine if it would be cost-effective to privatize its grounds keeping operations. In order to begin the assessment, TVSD needs to separate and track its landscaping and grounds work expenditures to ensure accurate cost comparisons can be made.

- TVSD should develop and implement a formal, comprehensive preventive maintenance program. Preventive maintenance schedules for the building's heating, cooling, and plumbing systems should be developed. After determining which components will be included, preventive maintenance checklists, including task frequency, should be developed for each wing of the building. Most preventive maintenance tasks should be scheduled according to manufacturers' suggestions. After a task is completed, it should be recorded on the checklist or in a logbook. The transportation/ maintenance supervisor should review the logbook to ensure that work is being completed in a timely manner.

- TVSD should use custodial employees and the transportation/maintenance supervisor to complete minor maintenance repairs when the maintenance employee is unavailable. By using the custodial staff to perform minor maintenance repairs, it will ensure that appropriate repairs are made in a timely fashion without jeopardizing the safety and function of the facility.

- TVSD should account for all expenditures in accordance with the guidelines set forth in the USAS manual. The District should use the classified leave benefits object codes when budgeting salaries.

- TVSD should re-examine its current maintenance staffing levels and consider the long-term maintenance requirements of its building. Adequate long-term planning by TVSD management will assist the District in preparing for future needs as its facility ages and warranties expire.

Transportation

- TVSD should correct its T-Forms for FY 2001 and file them with ODE for possible additional reimbursements. It is important to submit the correct transportation data to ODE to help in developing comparative statistics and transportation trends on both a statewide and local level. In addition, proper completion of T-Forms ensures TVSD that it is receiving all available transportation funding.

Summary of Financial Implications

The following table summarizes the performance audit recommendations which contain financial implications. These recommendations provide a series of ideas or suggestions which TVSD should consider. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Reference Number	Recommendations from all Sections	One-Time Revenue	Annual Cost Savings	Implementation Costs
	Human Resources			
R3.3	Reduction in education service personnel		$99,800	
R3.4	Reduction in teaching aides		$56,000	
	Facilities			
R4.5	Eliminate use of substitute custodians (excluding grounds work) during summer breaks		$5,600	
R4.7	Exclude substitute custodians from overtime usage		$2,400	
	Transportation			
R5.1	Replace a bus every year [1]			$55,000
R5.2	Reduce the spare bus fleet from five buses to two buses [2]		$4,500	
R5.2	Public auction of spare buses [2]	$4,500		
Total Financial Implications		**$4,500**	**$168,300**	**$55,000**

[1] Based upon TVSD's current financial forecast, it would only incur the additional annual cost in FY 2003-04 and FY 2004-05.
[2] The total revenues and annual cost savings will be phased-in over a five-year period beginning in FY 2002-03 and concluding in FY 2006-07.

The financial implications summarized above are presented on an individual basis for each recommendation. The magnitude of cost savings associated with some recommendations could be affected or offset by the implementation of other interrelated recommendations. Therefore, the actual cost savings, when compared to estimated cost savings, could vary depending on the implementation of the various recommendations.

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Financial Systems

Background

This section focuses on the financial systems within Twin Valley Community Local School District (TVSD). The objective is to analyze the current financial condition of TVSD and develop recommendations for improvements and efficiencies. Comparisons will be made throughout this section to the following peer school districts: Liberty Center Local School District (LCSD), Spencerville Local School District (SLSD) and Tri-County North Local School District (TCSD).

The Auditor of State's Office (AOS) recommended the establishment of fiscal watch and emergency laws for school districts to create predetermined monitors and criteria for fiscal responsibility and to provide technical assistance to help school administrators restore fiscal stability. Senate Bill 310, effective September 19, 1996, established fiscal watch and emergency laws for Ohio school districts. Senate Bill 345, effective April 10, 2001, amended the conditions for declaring fiscal watch and emergency and created a new category of fiscal caution. The difference between fiscal caution, fiscal watch and fiscal emergency is the severity of the school district's financial condition.

To help define fiscal caution, the Ohio Department of Education (ODE), in consultation with AOS, developed guidelines to identify fiscal practices and budgetary conditions that could lead to financial crisis if left uncorrected. Contingent upon meeting any one of these conditions, ODE consults with the local school board, and may decide to declare the district to be in fiscal caution. If this declaration is made, the school board has 60 days to provide a written proposal to ODE that outlines a plan to correct the fiscal deficiencies. A district may be released from fiscal caution if ODE determines that the corrective actions have been or are being implemented, but the district cannot be released in the same fiscal year in which it was placed in fiscal caution.

In accordance with Ohio Revised Code §3316.03, a district may be placed in fiscal caution when the district projects a current year ending fund balance less than or equal to 2 percent of current year projected revenues. On March 14, 2002, TVSD was placed in fiscal caution due to a projected FY 2001-02 ending fund balance that was approximately negative 1 percent of the projected revenues. As a result, TVSD was required to submit a financial recovery plan proposing changes that would lead to the elimination of this deficit. The plan that TVSD submitted included staffing reductions, administrative and supervisory salary freezes and expenditure reductions for supplies and materials. This plan was found to be satisfactory by ODE.

Financial Operations

Approximately three years ago, during its annual budgeting and forecasting process, TVSD's Board determined that if it did not propose an income tax increase to its voters in the near future, the District would face a General Fund deficit. Because TVSD had available resources to continue operations for the next three to four years, the District administration felt that voters would not be able to justify an income tax increase at that time. Therefore, TVSD decided to deplete its positive ending General Fund balances until it was absolutely necessary to pose a new levy. In November 2000, TVSD had operating levies that were up for renewal, and because the District did not want to interfere with the renewal of these levies, the District felt it needed to wait until November 2001 to propose a 1 percent school district income tax. When the 2001 income tax was defeated by voters, the projected fund balance for fiscal year 2002 decreased to a 1 percent deficit, as presented in the December 2001 five-year forecast, leading to its fiscal caution designation.

Since being placed in fiscal caution in March 2002, the Board placed a 0.75 percent school district income tax on the ballot. On May 7, 2002, the TVSD voters approved the 0.75 percent income tax. The income tax will become effective January 2003 and will generate an estimated $735,000 annually for TVSD. In addition to the passage of the income tax, TVSD approved several expenditure reductions in the areas of staffing, supplies, materials and textbooks which will yield savings of approximately $170,000 in FY 2002-03. Due to this increase in revenues and decrease in expenditures, TVSD presented an updated financial forecast in May 2002 that does not show a deficit during the five-year projection period.

TVSD's forecasting assumptions do not appear to accurately present its future financial situation. Therefore, TVSD should consider adjusting its assumptions based upon recommendations in this performance audit. While the recommendations in this performance audit report contribute to a revised ending General Fund balance of $583,000 in FY 2006-07, TVSD is projected to experience net operating losses beginning in FY 2005-06, and failure to incorporate the recommendations could accelerate this problem.

Table 2-1 shows selected discretionary expenditures by account from TVSD's FY 2001-02 General Fund. The expenditures are then calculated as a percentage of total General Fund expenditures and compared with similar spending by the peer districts.

Table 2-1: Discretionary Expenditures

	TVSD	LCSD	SLSD	TCSD	Peer Average
Prof. and Technical Services	3.7%	1.1%	1.5%	10.0%	4.2%
Property Services	1.5%	1.3%	0.8%	0.9%	1.0%
Mileage/Meeting Expense	0.2%	0.2%	0.3%	0.4%	0.3%
Communications	0.2%	0.4%	0.4%	0.3%	0.3%
Contracted Craft or Trade Services	0.0%	0.0%	0.0%	0.0%	0.0%
Pupil Transportation Services	1.0%	0.0%	0.0%	1.4%	0.5%
Other Purchased Services	0.1%	0.0%	0.0%	0.0%	0.0%
General Supplies	1.0%	1.7%	2.0%	1.4%	1.7%
Textbooks/Reference Materials	0.6%	0.6%	1.3%	1.0%	1.0%
Supplies & Materials For Resale	0.0%	0.2%	0.0%	0.0%	0.1%
Plant Maintenance and Repair	0.7%	0.7%	1.0%	0.3%	0.7%
Fleet Maintenance and Repair	0.9%	0.6%	1.0%	0.6%	0.7%
Other Supplies & Materials	0.0%	0.0%	0.0%	0.0%	0.0%
Land, Buildings & Improvements	0.0%	3.3%	0.0%	0.0%	1.1%
Equipment	0.2%	1.9%	0.6%	0.1%	0.9%
Buses/Vehicles	0.0%	0.0%	1.1%	0.0%	0.4%
Other Capital Outlay	0.0%	0.7%	0.0%	0.0%	0.2%
Dues and Fees	1.8%	1.7%	2.5%	1.5%	1.9%
Insurance	0.3%	0.1%	0.1%	0.3%	0.2%
TOTAL	**12.2%**	**14.5%**	**12.6%**	**18.2%**	**15.2%**

Source: FY 2001-02 4502 Report

As shown in **Table 2-1**, TVSD's percentage of discretionary spending (12.2 percent) is approximately 25 percent lower than the peer average percentage of discretionary spending (15.2 percent). Looking at individual line items, TVSD is higher than the peer average in only 5 out of 20 categories. TVSD is successfully controlling these expenditures and should continue to be prudent in this area to maintain this level of purchasing. It should also be noted that these expenditures are weighted towards educational goals with the majority of the expenditures allocated to professional and technical services.

The financial forecast presented in **Table 2-2** represents the TVSD treasurer's projection (as of May 2002) of the District's present and future financial condition, including the anticipated income from the recent school district income tax and expenditure reductions. Otherwise, no significant increases in revenues or reductions in expenditures are noted. The forecast and accompanying assumptions are the representations of TVSD and are presented without further verification. The projections, which incorporate the combined General, Emergency Levy, DPIA and Textbook Funds, as well as that portion of the Debt Service Fund relating to General Fund obligations, are accompanied by three years of comparative historical results, general assumptions and explanatory comments. Assumptions that have a significant impact on TVSD's financial recovery, such as income tax revenue, salaries, wages and benefits, and inflationary increases in expenditures have been tested for reasonableness.

Table 2-2: TVSD Financial History and Forecast

	Actual FY 98-99	Actual FY 99-00	Actual FY 00-01	Forecast FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06
Real Estate Property Tax	1,698,706	1,773,909	1,806,725	1,791,000	1,890,000	1,980,000	1,980,000	2,070,000
Tangible Personal Property Tax	199,901	226,455	220,785	178,400	225,000	225,000	225,000	225,000
Income Tax	0	0	0	0	44,100	551,250	735,000	735,000
Unrestricted Grants-in-Aid	3,433,528	3,436,840	3,566,487	3,813,000	3,893,000	3,973,000	4,053,000	4,133,000
Restricted Grants-in-Aid	52,012	35,857	40,985	26,800	30,000	30,000	30,000	30,000
Property Tax Allocation	201,643	210,594	216,974	216,400	215,000	215,000	215,000	215,000
Other Revenues	166,611	247,486	187,938	154,700	182,200	182,200	182,200	182,200
Total Operating Revenues	5,752,401	5,931,141	6,039,894	6,180,300	6,479,300	7,156,450	7,420,200	7,590,200
Salaries & Wages	3,585,446	3,826,721	3,930,301	4,070,500	4,176,291	4,367,576	4,565,527	4,772,387
Fringe Benefits	985,379	1,007,797	1,093,178	1,117,700	928,361	1,304,044	1,353,872	1,406,144
Purchased Services	707,185	828,987	933,011	928,700	975,135	1,023,892	1,075,086	1,128,841
Supplies & Materials	220,876	242,932	235,247	198,000	163,940	168,858	173,924	179,142
Capital Outlay	45,840	77,646	86,861	9,800	87,353	33,323	89,324	35,353
Other Expenditures	187,842	137,005	111,738	160,200	160,000	160,000	160,000	160,000
Interest on Loans	8,387	0	0	0	0	0	0	0
Total Operating Expenditures	5,740,955	6,121,088	6,390,336	6,484,900	6,491,080	7,057,693	7,417,733	7,681,867
All Other Financing Sources	18,689	1,220	17,962	0	5,000	5,000	5,000	5,000
Net Advances – In / (Out)	2,740	0	0	0	0	0	0	0
Net Financing	21,429	1,220	17,962	0	5,000	5,000	5,000	5,000
Results of Operations (Loss)	32,875	(188,727)	(332,480)	(304,600)	(6,780)	103,757	7,467	(86,667)
Beginning Cash Balance	882,050	914,925	726,198	393,718	89,118	82,338	186,095	193,562
Ending Cash Balance	914,925	726,198	393,718	89,118	82,338	186,095	193,562	106,895
Outstanding Encumbrances	(148,964)	(86,563)	(65,880)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Ending Fund Balance	$765,961	$639,635	$327,838	$39,118	$32,338	$136,095	$143,562	$56,895

Source: Treasurer's Office

The financial projection in **Table 2-2** presents the expected revenues, expenditures and fund balance of TVSD's General Fund for each of the fiscal years including June 30, 2002 through June 30, 2006, with historical information presented for the fiscal years ended June 30, 1999, 2000 and 2001. As shown in **Table 2-2,** the passage of the school district income tax levy will provide TVSD with the revenue that the District requires to begin its financial recovery. However, while TVSD is projecting a positive fund balance at the end of each of the next five years, the balance is not forecasted to grow except from FY 2002-03 to FY 2003-04 at a substantial increase of 320 percent (see **R2.7**) and from FY 2003-04 to FY 2004-05 at a moderate increase of 5 percent. In contrast, after FY 2004-05, the ending fund balance is projected to decrease by 60 percent in FY 2005-06 (see **R2.7**). This is further illustrated by the negative net results of operations forecasted in FY 2005-06.

The assumptions disclosed herein are based on information obtained from TVSD. Because circumstances and conditions assumed in projections frequently do not occur as expected and are based on information existing at the time projections are prepared, there usually will be differences in projected and actual results.

Major assumptions used to develop the five-year forecast are as follows.

Revenues

- Real estate tax revenue is subject to a revaluation in 2002, and because TVSD is near the 20 mill floor, the Preble County Auditor projects a 10 percent increase in real estate revenue as a result of the revaluation. In addition, a reappraisal of property in 2005 is projected to lead to a 10 percent increase in property taxes. These increases are each phased-in over a two-year period, therefore appearing as 5 percent increases in the two years following the revaluation (FY 2002-03 and FY 2003-04) and a 5 percent increase in the year following the reappraisal (FY 2005-06). No increase in real estate tax revenue is projected in FY 2004-05.

- A 0.75 percent income tax was passed in May 2002 that will be effective beginning January 2003. This income tax is anticipated to generate $735,000 annually for TVSD. Based on information from the Ohio Department of Taxation, 6 percent of this annual total will be realized in FY 2002-03, 75 percent will be realized in FY 2003-04 and the full amount will be realized annually beginning in FY 2004-05.

- TVSD is projecting no increase in the base amount of revenue received from State Foundation payments, but the District will begin receiving Parity Aid. TVSD is assuming a five-year phase-in of the Parity Aid. The phase-in will occur as percentages of the total aid each year, beginning with 20 percent in FY 2002-03, 40 percent in FY 2003-04, 60 percent in FY 2004-05, 80 percent in FY 2005-06 and 100 percent in FY 2006-07.

- Other Revenue consists of tuition receipts; interest on investments; sale of assets, textbooks and workbooks; property rentals; and other revenue from local sources such as donations or contributions. Other revenue is being forecasted based on historical patterns.

Expenditures

- TVSD includes certificated and classified staff salaries and wages, substitute costs, bus trips and washes, shift premiums and other wages for student workers in its personal services line item. TVSD is using a 4.5 percent increase per year that includes a cost of living adjustment (COLA) and applicable step increases. No allowance is taken for future negotiated increases in union contracts, and no increases for substitute costs are forecasted for any year. In addition, TVSD has approved a salary freeze for all administrative and supervisory personnel, as well as staffing reductions. These expenditure reductions will take effect in FY 2002-03 and are carried throughout the entire forecasted period.

- TVSD is projecting health insurance costs to increase for FY 2001-02 by approximately 5 percent and at an even greater rate of 20 percent in FY 2002-03. To help offset this 20 percent increase, TVSD will apply a cash receipt in FY 2002-03 of $328,170 that it obtained in FY 2001-02 due to the demutualization of Anthem Health Insurance. For FY 2003-04 through FY 2005-06 TVSD projects a health insurance increase of 6 percent. All remaining benefits, which include any retirement benefits and worker's compensation costs, are projected to increase by 2 percent each year during the five-year forecasted period.

- Purchased services are forecasted at a moderate increase of 5 percent annually in the five-year forecast period.

- TVSD is forecasting supplies and materials to increase at a rate of 3.0 percent per year after FY 2001-02, based on historical increases at an average of 3.4 percent per year. In addition, TVSD has approved a one-time reduction of $40,000 in supplies and materials, which will be effective for FY 2002-03.

- Capital expenditures for FY 2002-03 and FY 2004-05 include an increase of 3 percent for each fiscal year based on historical information, as well as a bus purchase in each of those years, estimated at $55,000 per bus. Capital outlay during FY 2003-04 and FY 2005-06 is projected at an increase of 3 percent, with no other large purchases projected during these fiscal years.

In addition to the analyses presented in this report, assessments were conducted on several other areas within the financial systems operations of TVSD that did not warrant changes and did not yield any recommendations. These areas include the following:

- Forecast assumptions, other than those which are noted in **R2.1 – R2.5**, were tested and appeared reasonable;
- Debt Service Obligations;
- District Purchases; and
- Food Services Operations.

Recommendations

Financial Forecast

R2.1 TVSD should ensure that the accompanying notes and assumptions used to calculate the forecast include an adequate description of the District's income tax. The treasurer should consider including a table similar to Table 2-3 to explain how the income tax is being forecasted. In addition, TVSD should be held accountable for how the income tax revenue will be spent.

TVSD passed a 0.75 percent school district income tax effective January 1, 2003 that is expected to generate $735,000 annually, though not all of this revenue will be realized until the third year. However, there is no assumption to detail exactly what percentages of the revenue will be received until the third year. **Table 2-3** presents TVSD's forecasted income tax revenue for FY 2002-03 to FY 2005-06.

Table 2-3: Forecasted Income Tax Revenue

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Income Tax Base	$735,000	$735,000	$735,000	$735,000	$735,000
Average Percentage Received	6%	75%	100%	100%	100%
Amount Reported in Forecast	$44,100	$551,250	$735,000	$735,000	$735,000

Source: Treasurer's Office

Although TVSD did specifically state how the revenue from the income tax will be spent, it is important for TVSD to demonstrate its financial accountability to its community, particularly in light of the recent passage of the income tax levy. TVSD can become more accountable by ensuring that it readily provides updated information to the community regarding the allocation of income tax revenue on a continuous basis. For example, TVSD may want to consider developing a quarterly or biannual report to be distributed to the community that details income tax receipts and outlines how the receipts have been allocated. Any increased expenditures that are clearly and expressly stated to the citizens will increase the level of accountability of TVSD, as well as help to increase effective communication between the District and the community.

R2.2 TVSD should evaluate the assumption being used to forecast the other revenue line item and consider changing the assumption so that it projects this line item more accurately. In addition, TVSD should ensure that the accompanying notes and assumptions used to calculate the forecast include an adequate description of those receipts that comprise Other Revenue, as well as a description of exactly how the other revenue line item is being forecasted.

Other Revenue for TVSD includes tuition, earnings on investments, property rentals and donations and contributions. The accompanying notes and assumptions to TVSD's five-year forecast currently state that Other Revenue is being forecasted based on historical patterns. Historical patterns indicate an average change in Other Revenue of 12.2 percent from FY 1998-99 to FY 2000-01. The FY 2000-01 actual receipt for Other Revenue was $187,938, while the forecasted amount for FY 2001-02 was $154,700. However, forecasting Other Revenue based on historical patterns, as stated in the accompanying notes and assumptions, would assume using the average historical change of 12.2 percent and would present an amount of approximately $210,870 for the FY 2001-02 forecasted amount. This is a difference of approximately $56,000 from what is actually forecasted by TVSD.

During the course of this performance audit, actual data for FY 2001-02 was received. For FY 2001-02, Other Revenue totaled nearly $503,500, which is approximately 225 percent greater than what was forecasted. While this difference is caused in part by TVSD's conservative approach to forecasting by understating expected revenues, such a large difference warrants assessing the use of a different assumption to forecast Other Revenue.

Because it is difficult to define a consistent historical pattern, TVSD should consider using an average of the four years of historical data to project the other revenue line item. TVSD averaged $276,400 in other revenue receipts per year when using four years of historical data (see **Table 2-14**). TVSD should use this figure for each year during the five-year forecasted period without adding any annual percentage increase, allowing the District to maintain a conservative approach when forecasting revenues (**Table 2-4**).

Table 2-4: Other Revenue Receipts

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
TVSD's Other Revenue Forecast [1]	$182,200	$182,200	$182,200	$182,200	N/A
Adjustment to TVSD's Assumptions [2]	94,179	94,179	94,179	94,179	$276,379
Revised Other Revenue Forecast [3]	**$276,379**	**$276,379**	**$276,379**	**$276,379**	**$276,379**

Source: Treasurer's Office and AOS calculations

[1] The "Other Revenue" forecasted amounts are obtained from the District's forecast (**Table 2-2**). TVSD forecasted a zero percent increase throughout the forecast period.

[2] AOS averaged four years of historical data to determine the amount to increase forecasted "Other Revenue" receipts (**Table 2-13**).

[3] The revised forecast amounts are used in the proposed financial recovery plan (**Table 2-14**).

As shown in **Table 2-2**, projecting Other Revenue of $182,200 for each year of the forecasted period contributes to an ending fund balance that decreases each year after FY 2003-04, in particular a decrease of approximately 47 percent in FY 2006-07. By forecasting Other Revenue using the new assumption that takes an average figure based upon four years of actual data, TVSD will be forecasting a more accurate Other Revenue figure.

In addition to revising its assumption, TVSD must ensure that the assumption in the accompanying notes to the five-year forecast details the elements included in Other Revenue, such as tuition, interest on investments, property rentals and a detailed description of other revenue from local sources, as well as any calculations and necessary explanations involved with forecasting the figure. Providing the detail for the elements of Other Revenue and how it is being forecasted will help TVSD present a clear explanation to the community.

R2.3 TVSD should update the accompanying notes and assumptions to the five-year forecast to reflect the renegotiated salary increases for certificated and classified staff. The new agreements provide a zero percent increase for certificated and classified personnel in FY 2002-03 and a 5 percent increase for certificated and classified personnel in both FY 2003-04 and FY 2004-05. These agreements have a material impact and should be incorporated into the five-year forecast immediately.

The current copy of TVSD's five-year forecast projects salaries and wages for certificated and classified personnel to increase at a rate of 4.5 percent annually, which includes a cost of living adjustment (COLA) and increases due to longevity and additional education. During the course of this audit, TVSD completed negotiations with its certificated staff and classified staff. Agreements were reached with each union that allow for COLA increases for certificated and classified staff of zero percent in FY 2002-03, and 5 percent in both FY 2003-04 and FY 2004-05. **Table 2-5** illustrates the effect of modifying the forecast percentages for salaries and wages for certificated and classified staff.

Table 2-5: Salary & Wages Expenditures

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
TVSD's Salaries & Wages Forecast [1]	$4,109,726	$4,300,142	$4,499,126	$4,707,065	N/A
Adjustment to TVSD's Assumptions [2]	(121,477)	(44,744)	40,785	42,620	4,968,899
Revised Salaries & Wages Forecast [3]	**$3,988,249**	**$4,255,398**	**$4,539,911**	**$4,749,685**	**$4,968,899**

Source: Treasurer's Office and AOS calculations
[1] The "Salaries and Wages" forecasted amounts from **Table 2-2** were modified using FY 2001-02 actual data.
[2] Revised assumptions using the new negotiated salary increases. Includes an increase in the first three years of the forecast for step and longevity increases. A 1.5 percent increase was used for FY 2002-03; 6.5% increase for FY 2003-04 and FY 2004-05; and a 4.5 increase for FY 2005-06 and FY 2006-07. Staffing reductions incorporated by TVSD effective June 30, 2002 are also incorporated in to the adjustment (**Table 2-13**).
[3] The revised forecast amounts are used in the proposed financial recovery plan (**Table 2-14**).

The adjustments to TVSD's salary increases in Table 2-5 include the salary increases provided by the union agreements, an additional 1.5 percent in each year for increases due to longevity or additional educational attainments, and a reduction of approximately $129,000 in each fiscal year due to reductions in staffing that TVSD has approved beginning in FY 2002-03. In FY 2005-06 and FY 2006-07, the prior assumption of a 4.5 percent increase, which includes a COLA and any step increases, is used to forecast salaries and wages. Using the revised assumption presents a forecast that shows increased salaries and wages expenditures as compared to using the old assumption of a straight 4.5 percent increase.

Because salaries, wages and benefits average approximately 79 percent of TVSD's total expenditures, it is imperative that salary expenditures be monitored closely. **Table 2-5** presents how agreed upon salary increases for certificated and classified staff will affect the five-year forecast. Updating the accompanying notes and assumptions to the five-year forecast for the forecasting of certificated and classified salaries and wages to reflect the most recent union agreements will ensure that TVSD is presenting the most accurate and up-to-date picture of its financial status.

R2.4 TVSD should revise the assumption used to forecast the health insurance portion of the fringe benefits expenditure line item. According to current economic trends in the health insurance industry, health insurance costs will continue to increase at a rate that is more than double the rate that TVSD is currently using to forecast its health insurance expenditures. Additionally, TVSD should consider revising the assumption that is used to forecast the retirement benefits portion of the fringe benefits expenditure line item so that retirement benefits costs increase by an amount proportionate to increases forecasted in salaries and wages expenditures.

Fringe Benefits for TVSD consist of expenditures for all certificated and classified staff for health insurance benefits, retirement benefits, workers' compensation and tuition costs. TVSD forecasts each of these items separately with different assumptions, and then totals the amounts to determine the fringe benefits line item on the five-year forecast. Currently, TVSD is forecasting a 20 percent increase in health insurance benefits in FY 2002-03 due to drastic increases in premiums, followed by a 6 percent increase in health insurance costs in each of the remaining years (FY 2003-04 through FY 2005-06) based on historical patterns. Other fringe benefits, including retirement costs, workers' compensation and tuition are forecasted to increase at 2 percent per year. In addition to these assumptions, TVSD received a one-time cash infusion of $328,169 due to the demutualization of Anthem Health Insurance. TVSD is using this amount to offset the cost of health insurance in FY 2002-03, and therefore the amount presented in the five-year forecast for fringe benefits is net of the cash infusion.

While the historical average from FY 1998-99 to FY 2001-02 for fringe benefits is approximately 8.0 percent, TVSD experienced a 13.4 percent increase in fringe benefits from FY 2000-01 to FY 2001-02. This increase was primarily due to rising health insurance costs. According to the State Employment Relations Board (SERB) 2001 Annual Report on the Cost of Health Insurance in Ohio's Public Sector, the annual percentage change from 2000 to 2001 for health insurance premiums in the Ohio public sector was 14.7 percent. Based on the 13.4 percent increase in fringe benefits that TVSD experienced in FY 2001-02 and the 14.7 percent increase that was realized on average for health insurance premiums in Ohio's public sector, it may be more accurate for TVSD to use an annual increase of 14.0 percent for health insurance costs.

Additionally, increases in costs for retirement benefits are typically linked to salary increases, and it is a best practice when forecasting to use similar percentage increases to forecast the cost of retirement benefits and salaries and wages expenditures. Therefore, to more accurately forecast expenditures for retirement benefits, TVSD should consider using the salary increases reflected in **R2.3** as a general guideline for increases in the cost of retirement benefits. **Table 2-6** illustrates the effect of increasing the forecasting percentages for fringe benefits.

Table 2-6: Fringe Benefit Expenditures

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
TVSD's Fringe Benefit Forecast [1]	$1,369,471	$1,424,996	$1,483,322	$1,544,601	N/A
Adjustment to TVSD's Assumptions [2]	0	75,405	163,401	262,331	1,986,495
Revised Fringe Benefit Forecast [3]	**$1,369,471**	**$1,500,401**	**$1,646,723**	**$1,806,932**	**$1,986,495**

Source: Treasurer's Office and AOS calculations
[1] The "Fringe Benefit" forecasted amounts from **Table 2-2** were modified using FY 2001-02 actual data.
[2] Shows revised assumptions for forecasting health insurance benefits and retirement benefits. Health insurance benefits were forecasted at increasing 14 percent beginning in FY 2003-04 and extending throughout the forecast period. Retirement benefit increases increased at a percentage comparable to salary increases in each forecast period (**Table 2-13**).
[3] The revised forecast amounts are used in the proposed financial recovery plan (**Table 2-14**).

As illustrated in **Table 2-2**, fringe benefits are the second largest expenditure historically as well as through the five-year forecasted period. Therefore, it is very important to forecast fringe benefit expenditures as accurately as possible, based on external benchmarks and historical trends. Revising the assumptions for health insurance and retirement benefits expenditures leads to a lower ending General Fund balance. However, using revised assumptions that are based on external benchmarks and current economic trends will ensure that fringe benefits expenditures are presented more accurately in the five-year forecast.

R2.5 TVSD should assess the effectiveness of the current assumption being used to forecast Capital Outlay expenditures and consider revising the assumption to one that allows for more accurate forecasting. TVSD should consider using a 6 percent annual increase in capital outlay expenditures, rather than the current assumption of a 3 percent increase in capital outlay expenditures.

TVSD's Capital Outlay expenditures include capital improvements and a bus purchase every other year. Currently, TVSD forecasts capital outlay expenditures using a 3 percent increase each year on the capital improvements portion of the expenditure, and then adds in $55,000 as a lump sum for the bus purchase, if it is a year in which a bus will be purchased.

In FY 2000-01, TVSD expended $86,860 on capital outlay. In contrast, in FY 2001-02, TVSD spent approximately 700 percent less, or approximately $85,000 less on capital outlay. Approximately $55,000 of this expenditure difference is a result of a bus purchase in FY 2000-01. Reducing FY 2000-01 capital outlay expenditures by the $55,000 bus purchase, however, still leaves the capital outlay expenditures drastically lower in FY 2001-02 at almost 200 percent less than in FY 2000-01. These reductions are due in large part to concerted efforts by TVSD to decrease capital outlay expenditures, although TVSD was conscientious to maintain any expenditure that was necessary for adequate operations of the District. As TVSD has maintained necessary capital outlay spending levels, the District will not need to increase its volume of capital outlay purchases. However, TVSD needs to adequately forecast for appropriate inflationary increases, which will most likely be greater than the 3 percent increase that the District is currently forecasting. Therefore, TVSD should consider using a 6 percent increase that will more accurately portray current economic trends in inflationary increases. **Table 2-7** shows the effect to the Capital Outlay expenditure forecast by increasing the forecasting percentage to 6 percent for the forecast period.

Table 2-7: Capital Outlay Expenditures

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
TVSD's Capital Outlay Forecast [1]	$66,101	$11,434	$66,777	$12,131	N/A
Adjustment to TVSD's Assumptions [2]	324	676	1,060	1,476	76,771
Revised Capital Outlay Forecast [3]	**$66,425**	**$12,110**	**$67,837**	**$13,607**	**$76,771**

Source: Treasurer's Office and AOS calculations
[1] The "Capital Outlay" forecasted amounts from **Table 2-2** were modified using FY 2001-02 actual data.
[2] Shows revised assumptions for forecasting capital outlay using a 6 percent annual increase (**Table 2-13**).
[3] The revised forecast amounts are used in the proposed financial recovery plan (**Table 2-14**).

As shown in **Table 2-7**, using a larger annual percentage increase for Capital Outlay expenditures increases the total expenditures, therefore decreasing the ending General Fund balance. Although the increase in capital outlay expenditures decreases the ending fund balance, using a 6 percent annual percentage increase presents a more accurate picture of capital outlay expenditures over the forecasted five-year period.

R2.6 TVSD should clarify the assumption used to forecast the Other Objects expenditure category. The District should consider using the assumption that projects nominal increases of 3 percent each year for Other Objects and reword the conflicting assumption in the notes to the five-year forecast. In addition, TVSD should ensure that it provides an adequate description of those expenditures that are included in Other Objects.

All assumptions are carried through to the forecast with the exception of the assumptions listed for the Other Objects expenditure category. Other Objects for TVSD includes expenditures for dues and fees, insurance costs, and taxes and assessments. The following assumptions are listed to forecast Other Objects:

- "Expenditures for other objects are based on historical information and projections. Nominal increases of three percent are projected for fiscal years 2003 to 2006;" and

- "Estimated expenditures for 2003 and subsequent years are shown at the 2002 fiscal year amount."

The first assumption clearly states that TVSD is predicting an increase of 3 percent in each year from FY 2002-03 to FY 2005-06 for other objects. The second assumption, however, states that TVSD is keeping this category static, basing the forecast on the FY 2001-02 expenditures. Currently, the second assumption of no increase for other objects is being carried throughout the forecast. This may not be the most appropriate way to handle this expenditure, considering there was an increase from FY 2000-01 to FY 2001-02 in this category of approximately 22 percent. Based on historical information and applying inflationary adjustments, using a nominal increase of at least 3 percent per year will present a more accurate representation of expenditures for Other Objects in future years. **Table 2-8** illustrates how the Other Objects expenditure category, forecasted using the current assumption of expenditures listed for all subsequent years at the FY 2001-02 rate, affects the five-year forecast.

Table 2-8: Other Objects Expenditures

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
TVSD's Other Objects Forecast [1]	$160,000	$160,000	$160,000	$160,000	N/A
Adjustment to TVSD's Assumptions [2]	(16,984)	(12,694)	(8,275)	(3,723)	160,965
Revised Other Objects Forecast [3]	**$143,016**	**$147,306**	**$151,725**	**$156,277**	**$160,965**

Source: Treasurer's Office and AOS calculations
[1] The "Other Objects" forecasted amounts from **Table 2-2** are the District's forecasted amounts.
[2] Shows revised assumptions for forecasting other objects using a 3 percent annual increase (**Table 2-13**).
[3] The revised forecast amounts are used in the proposed financial recovery plan (**Table 2-14**).

Other Objects are currently being projected by the District at a flat rate of $160,000 for the five-year forecast based on forecasted FY 2001-02 expenditures of $160,200. Although actual expenditures for FY 2001-02 for Other Objects were 18 percent lower at $135,477 than the forecast amount of $160,200, Other Objects in FY 2001-02 increased from FY 2000-01 by approximately 22 percent. Based on this increase, a nominal increase should be presented in the five-year forecast.

Because TVSD's actual expenditures for FY 2001-02 were significantly lower than the forecasted, the amount to which the 3 percent increase will be applied should be revised. Rather than using $160,000 as the base amount, TVSD should consider taking an average of 4 years of historical data from FY 1998-99 to FY 2001-02 to use as the FY 2002-03 forecasted amounts. TVSD should then forecast FY 2003-04 through FY 2006-07 using a 3 percent increase in each year to account for nominal inflationary increases in pricing.

Using a four-year average to project TVSD's FY 2002-03 other objects expenditures, and applying a 3 percent increase to this amount for FY 2003-04 through FY 2006-07, will allow the District to create a more accurate forecast. Although using this assumption decreases expenditures, which may seem to be a departure from a conservative forecasting approach, the new assumption presents a much more realistic forecast for the five-year period.

Revenue & Expenditure Analysis

R2.7 TVSD should closely examine the spending patterns indicated in Table 2-10 and Table 2-11 and consider reallocating the District's revenue toward those programs and priorities that have the greatest impact on improving the student's education and proficiency test results. Furthermore, TVSD should analyze the cost reductions recommended in the human resources, facilities and transportation sections of this report to aid the District's efforts to improve its financial well-being.

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. Given the limited resources available, functions must be evaluated and prioritized. Analyzing the spending patterns between the various functions should indicate where the priorities of the school board and management are placed. In addition, analyzing the number of ODE's 27 performance standards a school district meets should also correlate to the school district's spending patterns. Ohio law requires that each school district receive a performance accountability rating based on 27 performance standards. These 27 standards are minimum performance goals for public education in Ohio. **Table 2-9** presents the number of performance standards TVSD and the peers met in FY 1999-00, FY 2000-01 and FY 2001-02.

Table 2-9: ODE Performance Standards Comparison

# of 27 Performance Standards Met	TVSD	LCSD	SLSD	TCSD	Peer Average
FY 1999-00	12	18	20	16	18.0
FY 2000-01	17	19	21	16	18.7
FY 2001-02	16	18	20	19	19.0

Source: ODE Report Cards

As shown in **Table 2-9,** TVSD made a notable improvement in the number of standards met from FY 1999-00 to FY 2000-01, but then regressed slightly in FY 2001-02 by meeting one less standard than it did in FY 2000-01. However, TVSD is consistently lower than the peer average, as well as each of the individual peers, in the number of performance standards that the District met from FY 1999-00 to FY 2001-02.

Table 2-10 and **Table 2-11** illustrates the expenditures posted to the various USAS function codes for TVSD and the peer districts. Function codes are designed to report expenditures by nature or purpose. **Table 2-10** shows the operational expenditures per pupil and percentage of operational expenditures by function for all funds which are classified as governmental fund types. Governmental funds are used to account for a district's governmental-type activities.

Table 2-10: Governmental Funds Operational Expenditures by Function

	TVSD		LCSD		SLSD		TCSD		Peer Average	
USAS Function Classification	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**
Instruction Expenditures	**$3,758**	**57.7%**	**$4,450**	**63.0%**	**$3,445**	**58.8%**	**$3,739**	**60.8%**	**$3,878**	**61.1%**
Regular Instruction	$2,971	45.6%	$3,242	46.0%	$2,987	51.0%	$2,929	47.6%	$3,053	48.1%
Special Instruction	$533	8.3%	$859	12.1%	$172	2.9%	$682	11.1%	$571	9.0%
Vocational Instruction	$238	3.6%	$177	2.5%	$50	0.9%	$113	1.8%	$113	1.8%
Adult/Continuing Instruction	$0	0.0%	$0	0.0%	$2	<0.1%	$0	0.0%	$1	<0.1%
Other Instruction	$16	0.2%	$172	2.4%	$234	4.0%	$15	0.3%	$140	2.2%
Support Services Expenditures	**$2,617**	**40.1%**	**$2,402**	**34.2%**	**$2,271**	**38.8%**	**$2,245**	**36.6%**	**$2,306**	**36.3%**
Pupil Support	$200	3.1%	$259	3.7%	$300	5.1%	$307	5.0%	$289	4.6%
Instructional Support	$283	4.3%	$97	1.4%	$174	3.0%	$232	3.8%	$168	2.6%
Board of Education	$86	1.3%	$28	0.4%	$23	0.4%	$13	0.2%	$21	0.3%
Administration	$780	12.0%	$596	8.5%	$546	9.3%	$728	11.9%	$623	9.8%
Fiscal Services	$139	2.1%	$206	2.9%	$220	3.8%	$128	2.1%	$185	2.9%
Business Services	$0	0.0%	$0	0.0%	<$1	<0.1%	$0	0.0%	<$1	<0.1%
Plant Operation/Maintenance	$661	10.1%	$672	9.5%	$555	9.5%	$484	7.9%	$570	9.0%
Pupil Transportation	$416	6.4%	$350	5.0%	$453	7.7%	$341	5.5%	$381	6.0%
Central Support Services	$52	0.8%	$194	2.8%	$0	0.0%	$12	0.2%	$69	1.1%
Non-Instructional Services Expenditures	**$0**	**0.0%**	**$0**	**0.0%**	**$0**	**0.0%**	**$0**	**0.0%**	**$0**	**0.0%**
Extracurricular Activities Expenditures	**$146**	**2.2%**	**$194**	**2.8%**	**$139**	**2.4%**	**$158**	**2.6%**	**$164**	**2.6%**
Total Governmental Fund Operational Expenditures	**$6,521**	**100%**	**$7,046**	**100%**	**$5,855**	**100%**	**$6,142**	**100%**	**$6,348**	**100%**

Source: 4502 Report – Exhibit 2, FY 2001-02

According to **Table 2-10,** TVSD's total expenditures per pupil ($6,521) were higher than the peer average ($6,348) by approximately 3 percent, and greater than SLSD and TCSD by 11 percent and 6 percent, respectively. A large portion of TVSD's higher per pupil expenditures can be attributed to a higher amount of spending in support services. TVSD is spending 57.6 percent of total expenditures for instructional purposes, while its support services expenditure is 40.1 percent of total expenditures. In contrast, the peer average in instruction expenditures is 61.1 percent while the peer average in support services expenditures is 36.3 percent. The peer districts are placing more funds toward direct instruction costs, and comparatively less toward support services costs. The emphasis on educational expenditures may be related to the higher performance standard attainment of the peers.

As discussed in the **human resources, facilities** and **transportation** sections of this report, recommendations were made to reduce staffing, revise custodial substitute and overtime policies, reduce the spare bus fleet and begin purchasing a new bus every year. These recommendations, if implemented, could potentially reduce expenditures and are further supported by the analysis in **Table 2-10** which shows the following.

- TVSD spent $283 per student on Instructional Support Services, which is approximately 68 percent higher than the peer average of $168 (see **R3.4**).
- TVSD spent $661 on Plant Operation and Maintenance, which is approximately 16 percent higher than the peer average of $570 (see **R4.6** and **R4.7**).
- TVSD spent $416 on Pupil Transportation, which is approximately 9 percent higher than the peer average of $381 (see **R5.2**).

Table 2-11 shows the per pupil operational expenditures, facilities acquisition and construction, and debt service of all governmental funds. In addition, **Table 2-11** displays these expenditures as a percentage of TVSD's total governmental expenditures.

Table 2-11: Total Governmental Fund Expenditures by Function

	TVSD		LCSD		SLSD		TCSD		Peer Average	
USAS Function Classification	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**
Total Governmental Fund Operational Expenditures	$6,521	99.5%	$7,046	96.4%	$5,855	99.0%	$6,142	99.8%	$6,348	98.3%
Facilities Acquisition & Construction Expenditures	$1	<0.1%	$261	3.6%	$10	0.2%	$10	0.2%	$94	1.5%
Debt Service Expenditures	$35	0.5%	$0	0.0%	$48	0.8%	$0	0.0%	$16	0.2%
Total Governmental Funds Expenditures	**$6,557**	**100%**	**$7,307**	**100%**	**$5,913**	**100%**	**$6,152**	**100%**	**$6,458**	**100%**

Source: 4502 Report – Exhibit 2, FY 2001-02

TVSD's operational expenditure percentage is 99.5 percent, which is above the peer average of 98.3 percent. This demonstrates that TVSD is placing almost all of its funds toward operations of the District rather than capital outlays or debt service. However, TVSD spends more than the peers per pupil, but has met the lowest number of performance standards. Allocating more funds toward instructional expenditures and less toward support services could help TVSD prioritize programs that will most directly benefit student educational attainment and enhance performance on the ODE proficiency tests.

Financial Recovery Plan

R2.8 TVSD should analyze and use the financial recovery plan outlined in Table 2-14 to evaluate the recommendations presented within this performance audit and to determine the impact of the related cost savings on the District's financial condition. Based on the forecast that TVSD is currently presenting, the District will have an ending fund balance in FY 2006-07 that is less than 2 percent of total revenues, which could lead to being placed in fiscal caution status in the future. Therefore, TVSD should consider implementing the recommendations in this performance audit to avoid future financial difficulties. In addition, TVSD should update the financial recovery plan on an ongoing basis as critical financial issues are addressed or emerge.

TVSD's forecast, presented in **Table 2-2**, projects maintaining a positive fund balance at the end of each of the next five years. The forecasted growth is minimal except from FY 2002-03 to FY 2003-04 where TVSD has increased revenue and reduced expenditures. The increased revenues are the result of the recent passed income tax and a cash infusion from the demutualization of Anthem Health Insurance. Ending fund balance growth is projected to continue from FY 2003-04 to FY 2004-05, but at a moderate increase of 5 percent. In contrast, after FY 2004-05, the ending fund balance is projected to decrease by 60 percent in FY 2005-06. In turn, this decreased fund balance will also decrease the forecasted ending fund balance as a percentage of total revenue. **Table 2-12** presents the forecasted ending fund balance as a percentage of total revenues compared to the peer average forecasted ending fund balances as a percentage of total revenues.

Table 2-12: Fund Balance to Total Revenues

Fiscal Year	Ending Fund Balance	Total Revenues	Ending Fund Balance as Percentage of Total Revenues	Peer Average
FY 1998-99	$765,961	$5,752,401	13.3%	38.2%
FY 1999-00	639,635	5,931,141	10.8%	42.2%
FY 2000-01	327,838	6,039,894	5.4%	39.5%
FY 2001-02	39,118	6,180,300	0.6%	40.7%
FY 2002-03	32,338	6,479,300	0.5%	37.3%
FY 2003-04	136,095	7,156,450	1.9%	23.0%
FY 2004-05	143,562	7,420,200	1.9%	14.0%
FY 2005-06	56,895	7,590,200	0.7%	-34.2%

Source: Five-Year Forecast as of May 2002, Treasurer's Office

As shown in **Table 2-12**, TVSD's ending fund balance as a percentage of total revenues is consistently lower than the peer average with the exception of FY 2005-06. TVSD's ending fund balance as a percentage of total revenues is projected to steadily decrease through FY 2002-03, then increase to almost 2 percent in FY 2003-04 and FY 2004-05. However, in FY 2005-06, TVSD's ending fund balance is forecasted to again decrease below 1 percent. According to Ohio Revised Code (ORC) §3316, a district may be placed in fiscal caution when its ending fund balance is less than 2 percent of its total revenues. This reason was cited for TVSD's current fiscal caution status and, as evidenced in **Table 2-12**, the District is forecasting a situation in which it would not be eligible to be removed from fiscal caution status any time during the five-year forecasted period.

Table 2-13 illustrates the effect of the revised assumptions and recommendations presented throughout this report, the beginning fund balance for each year of the forecasted period as reported by TVSD, as well as adjustments to the beginning fund balances. The beginning fund balances are affected by changes in assumptions and recommendations made throughout the Twin Valley CLSD report. The ending fund balances match the ending fund balances in **Table 2-14**.

Table 2-13: Changes to TVSD Fund Balances

	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Beginning Fund Balance [1]	**$39,118**	**$32,338**	**$136,095**	**$143,562**	**$56,895**	**N/A**
Increases/ (Decreases) Resulting from Revised Assumptions:						
R2.2 Other Revenues	$0	$94,179	$94,179	$94,179	$94,179	$276,379
R2.3 Salaries and Wages	0	121,477	44,744	(40,785)	(42,620)	(4,968,899)
R2.4 Fringe Benefits	0	0	(75,405)	(163,401)	(262,331)	(1,986,495)
R2.5 Capital Outlay	0	(324)	(676)	(1,060)	(1,476)	(76,771)
R2.6 Other Objects	0	16,984	12,694	8,275	3,723	(160,965)
AOS Assumption Subtotal	**$0**	**$232,316**	**$75,536**	**$(102,792)**	**$(208,525)**	**$(6,916,751)**
Increases/ (Decreases) Resulting from Recommendations:						
R3.3 Reduction in educational service personnel	$0	$0	$106,287	$113,196	$118,289	$123,612
R3.4 Reduction in teaching aides	0	0	58,520	61,153	63,905	66,781
R4.5 Eliminating use of substitute custodians in summer	0	5,600	5,852	6,115	6,391	6,678
R4.7 Exclude overtime for substitute custodians	0	2,400	2,508	2,621	2,739	2,862
R5.1 Replace a bus every year	0	0	(55,000)	0	(55,000)	0
R5.2 Reduction in spare bus fleet	0	1,500	1,500	3,000	3,000	4,500
R5.2 Public auction of three spare buses	0	1,500	0	1,500	0	1,500
Recommendation Subtotal	**$0**	**$11,000**	**$119,667**	**$187,585**	**$139,324**	**$205,933**
Adjusted Ending Fund Balance [2]	**$435,465** [3]	**$663,697**	**$953,109**	**$1,030,512**	**$862,880**	**$428,412**

[1] The beginning fund balances are the ending fund balances illustrated in the TVSD's forecast on **Table 2-2**. TVSD has not forecasted amounts for FY 2006-07.
[2] The adjusted ending fund balances are the ending fund balances illustrated in the financial recovery plan in **Table 2-14**.
[3] The ending fund balance is the actual ending fund balance for FY 2001-02 (**Table 2-14**). However, the beginning fund balance was District's forecasted ending fund balance (**Table 2-2**).

Table 2-14 presents a potential financial recovery plan for TVSD management to use as a tool to assess the impact that implementation of the various performance audit recommendations will have on the District's entire financial condition. Additionally, this forecast provides an updated version of TVSD's forecast, using actual data for FY 2001-02 as opposed to forecasted data, and extending the forecast through FY 2006-07, rather than ending the projections in FY 2005-06. The forecast includes additional lines showing financial implications and implementation costs associated with the performance audit recommendations. Also, certain adjustments were made to the financial projections in **Table 2-2** based upon analysis conducted in this report, which include the following:

- Projecting 1.5 percent, 6.5 percent and 6.5 percent salary increases for certificated and classified staff in FY 2002-03, FY 2003-04 and FY 2004-05, respectively, due to contract renegotiations (see **R2.3**);
- Adjusting the assumptions used to forecast Other Revenue, Fringe Benefits, Capital Outlay and Other Objects Expenditures (see **R2.2, R2.4, R2.5** and **R2.6**);
- Including the appropriate line items for debt service relating to the General Fund; and
- Adjusting the forecast for outstanding encumbrances.

Table 2-14a and **Table 2-14b** summarize the financial implications associated with the recommendations contained within this report. Some recommendations could be implemented immediately, while others will require further management action to realize the proposed savings. In addition, implementation costs and cost avoidance associated with the various recommendations are also summarized.

Table 2-14a details those performance audit recommendations that are included in the financial recovery plan presented in **Table 2-14**. None of these recommendations are contingent upon negotiation. **Table 2-14b** presents the implementation costs associated with various recommendations contained within the performance audit.

For TVSD to maintain an acceptable level of financial stability, the District will need to continue to make difficult management decisions regarding further ways to increase revenue and reduce expenditures. This performance audit provides a series of ideas and recommendations which TVSD should consider. However, this audit is not all inclusive, and other cost savings and revenue enhancements should be continuously assessed and incorporated into the financial recovery plan of TVSD. In addition, TVSD should strive to allocate more funds toward the direct instruction of students rather than support services, and the District should focus on funding those programs that will specifically enhance each student's ability to meet proficiency testing minimum standards.

Table 2-14: Proposed Financial Recovery Plan

	Actual FY 98-99	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Real Estate Property Tax	1,698,706	1,773,909	1,806,725	1,791,321	1,880,890	1,975,000	1,975,000	2,073,750	2,177,450
Tangible Personal Property Tax	199,901	226,455	220,785	183,310	225,000	225,000	225,000	225,000	225,000
Income Tax	0	0	0	0	44,100	551,250	735,000	735,000	735,000
Unrestricted Grants-in-Aid	3,433,528	3,436,840	3,566,487	3,775,691	3,855,691	3,935,691	4,015,691	4,095,691	4,175,691
Restricted Grants-in-Aid	52,012	35,857	40,985	124,145	30,000	30,000	30,000	30,000	30,000
Property Tax Allocation	201,643	210,594	216,974	216,442	215,000	215,000	215,000	215,000	215,000
Anthem Demutualization	0	0	0	328,169 [1]	0	0	0	0	0
Other Revenues	166,611	247,486	187,938	175,311	276,379	276,379	276,379	276,379	276,379
One-time Revenue: Sale of Buses	0	0	0	0	**1,500**	0	**1,500**	0	**1,500**
Total Operating Revenues	**5,752,401**	**5,931,141**	**6,039,894**	**6,594,389**	**6,528,560**	**7,208,320**	**7,473,570**	**7,650,820**	**7,836,020**
Salaries & Wages	3,585,446	3,826,721	3,930,301	4,056,913	3,988,249	4,255,398	4,539,911	4,749,685	4,968,899
Fringe Benefits	985,379	1,007,797	1,093,178	1,239,175	1,369,471	1,500,400	1,646,723	1,806,932	1,986,495
Purchased Services	707,185	828,987	933,011	854,624	897,355	942,223	989,334	1,038,801	1,090,741
Supplies & Materials	220,876	242,932	235,247	214,288	180,717	186,138	191,722	197,474	203,398
Capital Outlay	45,840	77,646	86,861	10,778	66,425	12,110	67,837	13,607	69,423
Other Expenditures	187,842	137,005	111,738	135,477	143,016	147,306	151,725	156,277	160,965
Principal – Notes	0	0	0	35,000	0	0	0	0	0
Interest & Fiscal Charges	8,387	0	0	56	0	0	0	0	0
Performance Recommendations	0	0	0	0	**(11,000)**	**(174,667)**	**(186,085)**	**(194,324)**	**(204,433)**
Implementation Costs	0	0	0	0	**0**	**55,000**	**0**	**55,000**	**0**
Total Operating Expenditures	**5,740,955**	**6,121,088**	**6,390,336**	**6,546,311**	**6,634,233**	**6,923,908**	**7,401,167**	**7,823,452**	**8,275,488**
Proceeds From Sale of Notes	0	0	0	35,000	0	0	0	0	0
All Other Financing Sources	18,689	1,220	17,962	29,405	5,000	5,000	5,000	5,000	5,000
Net Transfers In/Advances Out	2,740	0	0	0	0	0	0	0	0
Net Financing	**21,429**	**1,220**	**17,962**	**64,405**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**
Net Results of Operations (Loss)	**32,875**	**(188,727)**	**(332,480)**	**112,483**	**(100,673)**	**289,412**	**77,403**	**(167,632)**	**(434,468)**
Beginning Cash Balance	882,050	914,925	726,198	393,718	506,201	405,528	694,940	772,343	604,711
Ending Cash Balance	**914,925**	**726,198**	**393,718**	**506,201**	**405,528**	**694,940**	**772,343**	**604,711**	**170,243**
Outstanding Encumbrances	(148,964)	(86,563)	(65,880)	(70,736)	(70,000)	(70,000)	(70,000)	(70,000)	(70,000)
Ending Fund Balance	**765,961**	**639,635**	**327,838**	**435,465**	**335,528**	**624,940**	**702,343**	**534,711**	**100,243**

Source: Actual figures – Treasurer's Office; Forecasted Figures – AOS projections

[1] All funds received from the Anthem demutualization must be used for the reduction of premiums during FY 2002-03.

As shown in **Table 2-14**, the financial recovery plan is projecting much larger ending fund balances than are projected in the District's current forecast in **Table 2-2**. **Table 2-14a** details those performance audit recommendations reflected in the financial recovery plan in **Table 2-14**. While implementation of the recommended changes to assumptions and operations contained in the performance audit results in an improved financial position, net operating losses are still anticipated beginning in FY 2005-06.

Table 2-14a: Summary of Performance Audit Recommendations

Recommendations included in forecast (Table 2-12):	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
R3.3 Reduction in education service personnel	$0	$106,287	$113,196	$118,289	$123,612
R3.4 Reduction in teaching aides	$0	$58,520	$61,153	$63,905	$66,781
R4.5 Eliminate use of substitute custodians (excluding grounds work) during summer breaks	$5,600	$5,852	$6,115	$6,391	$6,678
R4.7 Exclude substitute custodians from overtime usage	$2,400	$2,508	$2,621	$2,739	$2,862
R5.2 Reduce the spare bus fleet from five buses to two buses	$1,500	$1,500	$3,000	$3,000	$4,500
R5.2 Public Auction of three spare buses	$1,500	0	$1,500	0	$1,500
Total Recommendations Included in Recovery Plan	**$11,000** [1]	**$174,667**	**$187,585**	**$194,324**	**$205,933**

Source: Financial Implications Summaries for all sections of this performance audit report

[1] The total financial recommendations for FY 2002-03 in **Table 2-14a** is separated in **Table 2-14** between one-time revenues and annual cost savings.

Table 2-14b summarizes the implementation costs associated with various recommendations contained within the performance audit. Each cost is dependent on TVSD's decision to implement the associated recommendation and the timing of that implementation.

Table 2-14b: Implementation Costs

Recommendation Implementation Costs	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
R5.1 Replace a bus every year	$0	$55,000	$0	$55,000	$0
Total Recommendations Implementation Costs	**$0**	**$55,000**	**$0**	**$55,000**	**$0**

Source: Financial Implications Summaries for all sections of this performance audit report

If TVSD implements the recommendations made in this performance audit in conjunction with updating its five-year forecast based on the assumptions used to create the financial recovery plan presented in **Table 2-14**, the District will realize much larger ending fund balances as a percentage of total revenue than it is currently forecasting.

TVSD's ending fund balances are projected to steadily increase until FY 2004-05. However, based upon **Table 2-14**, TVSD will incur net operating losses beginning in FY 2005-06 which will affect the Districts ending fund balances. The projected ending fund balance in FY 2006-07 is approximately 5.6 percent of the previous year revenues, and as a result, TVSD should strongly consider implementing the recommendations included in this performance audit.

Conclusion Statement

TVSD's financial difficulties resulted from a failed 1.0 percent income tax levy in November 2001 requiring the District to make expenditure reductions in several areas including staffing reductions and an administrative salary freeze to become effective in FY 2002-03. TVSD again placed a levy on the ballot in May 2002 and was successful in earning voters' approval for a 0.75 percent income tax. The approval of the 0.75 percent income tax increases the funds available to the District.

In comparison to the peer districts, TVSD has the highest support services expenditures, which is attributed in particular to high costs for instructional, pupil transportation, and plant operation and maintenance expenditures and. In addition, TVSD is placing a greater percentage of overall expenditures toward support services and less toward direct instruction expenditures than the peers, which may be a factor leading to the fact that the District has consistently met less of the 27 ODE performance standards than the peers. TVSD should analyze the recommendations proposed throughout this performance audit to assist in reducing non-instructional expenditures and reallocating funds to those programs that will most directly impact the quality of each pupil's education.

TVSD takes a conservative approach in its forecasting techniques by slightly understating revenues and overstating expenditures. However, this conservative approach may not be presenting the most accurate picture of the financial situation of TVSD. Therefore, TVSD should consider revising the assumptions used to forecast various line items, particularly the Other Revenue, Salaries and Wages, Fringe Benefits, Capital Outlay and Other Expenditures line items, to reflect a more detailed, accurate picture of the District's financial situation through the five-year forecast.

In general, TVSD should be commended for its close attention to the precarious financial situation which led to its fiscal caution status. By reducing expenditures in various areas and securing more revenue through passage of the income tax levy, TVSD was able to present a financial recovery plan to ODE that will have a positive impact on the District's future financial stability. Ensuring that TVSD maintains financial stability and a balanced budget will require making important management decisions to assure that available resources are allocated and accounted for in a manner which supports educational goals and established objectives. In addition to the actions TVSD has already taken, District management is encouraged to evaluate the recommendations contained within this performance audit, as well as other cost savings possibilities, as they formulate a financial recovery plan for the District.

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Human Resources

Background

This section of the report focuses on the human resources operations within Twin Valley Community Local School District (TVSD). Comparisons will be made throughout this section of the report to the following peer school districts: Liberty Center Local School District (LCSD), Spencerville Local School District (SLSD) and Tri-County North Local School District (TCSD). TVSD's peers were identified based upon comparable districts identified by the Ohio Department of Education (ODE), review of various demographic information and input from TVSD personnel. Furthermore, these districts also demonstrated report card standards equal to or greater than those of TVSD. Best practices data will also be used from ODE, the State Employee Relations Board (SERB) and other school districts for additional comparisons.

Organizational Function

TVSD does not have a separate department that performs human resources activities. The primary human resources responsibilities are completed by the superintendent, principals, supervisors and the central office secretary. These responsibilities include the following: coordinating the activities and programs for the recruitment and selection of employees; monitoring compliance with employment standards (criminal background checks and teaching certifications); facilitating employee performance evaluations; administering and monitoring grievance policies and procedures; negotiating and administering union contracts; conducting disciplinary hearings; maintaining personnel files, placing selected substitutes and participating in new employee orientations. Assistance is also obtained from the Treasurer's Office which administers the health insurance plans for all employees within TVSD.

Staffing

Table 3-1 illustrates the actual staffing levels at TVSD and the peer districts during FY 2001-02 as reported in the Educational Management Information System (EMIS). Adjustments were made to the corresponding EMIS reports based upon interviews with the appropriate district personnel. All positions are shown as full-time equivalents (FTEs).

Table 3-1: FTE Staffing Levels for FY 2001-02

Category	TVSD	LCSD	SLSD	TCSD	Peer Average
Administrators: Subtotal	**8.0**	**11.3**	**9.6**	**7.3**	**9.4**
Central Based Administrators	2.0	2.0	2.0	2.0	2.0
Site Based Administrators	6.0	9.3	4.6	5.3	6.4
Other Administrators	0.0	0.0	3.0	0.0	1.0
Professional Education: Subtotal	**72.3**	**72.3**	**72.3**	**75.2**	**73.2**
Counseling	3.0	3.0	2.0	2.0	2.3
Librarian / Media	1.0	1.0	1.0	1.0	1.0
Remedial Specialists	0.0	1.0	3.0	3.0	2.3
Regular Education Teachers	52.4	60.3	51.4	53.4	55.0
Special Education Teachers	7.0	1.0	4.0	6.7	3.9
Vocational Education Teachers	4.0	3.0	1.0	2.0	2.0
Tutor / Small Group Instructor	0.0	0.0	5.9	0.0	2.0
Educational Service Personnel [1]	4.9	3.0	3.0	7.1	4.4
Other Professional	0.0	0.0	1.0	0.0	0.3
Professional – Other	**1.8**	**1.0**	**2.0**	**1.7**	**1.6**
Technical: Subtotal	**2.7**	**0.6**	**1.0**	**1.5**	**1.0**
Library Technician	0.0	0.0	0.0	0.7	0.3
Library Aide	2.7 [2]	0.6	1.0	0.0	0.5
Other Technical	0.0	0.0	0.0	0.8	0.3
Office / Clerical: Subtotal	**11.8**	**7.4**	**4.2**	**14.9**	**8.9**
Bookkeeping	0.0	1.4	0.0	0.0	0.5
Clerical	3.5	5.3	4.2	3.4	4.3
Teaching Aide	7.0	0.7	0.0	7.9	2.9
Other Office / Clerical	1.3	0.0	0.0	3.6	1.2
Crafts / Trades	**1.1**	**1.0**	**2.8**	**3.0**	**2.3**
Transportation	**8.0**	**7.0**	**5.8**	**5.9**	**6.2**
Custodial	**7.0**	**5.0**	**5.4**	**7.0**	**5.8**
Food Service	**4.1**	**3.6**	**3.2**	**5.8**	**4.2**
Monitoring	**0.0**	**0.7**	**0.7**	**0.0**	**0.5**
Groundskeeping	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**
Total FTEs	**117.2**	**109.9**	**107.0**	**122.3**	**113.1**

Source: FY 2001-02 EMIS Staff Summary Report and School Enrollment from TVSD and the peer districts

[1] The educational service personnel classification only includes art, music and physical education teachers. All other positions classified as educational service personnel according the Ohio Administrative Code (OAC) are coded separately in EMIS. See **R3.3** for further analysis on all educational service personnel.

[2] The District has implemented an accelerated reading program which has seen circulation of reading materials increase by 85 percent from FY 1999-00 to FY 2000-01. Approximately 24,400 materials circulated during the first six months of FY 2001-02 which was 69 percent of the entire circulation for FY 2000-01. When TVSD moved to its new facility, it reduced one full-time librarian and added two library aides which resulted in a annual savings of $38,800.

Staffing levels within a school district vary depending upon the number of students enrolled. **Table 3-2** illustrates the staffing levels per 1,000 Average Daily Membership (ADM) at TVSD and the peer districts for FY 2001-02.

Table 3-2: FTE Staffing Levels for FY 2001-02 per 1,000 ADM

Category	TVSD	LCSD	SLSD	TCSD	Peer Average
ADM	**1,055**	**1,168**	**1,063**	**1,151**	**1,127**
Administrators: Subtotal	**7.6**	**9.7**	**9.0**	**6.3**	**8.3**
Central Based Administrators	1.9	1.7	1.9	1.7	1.8
Site Based Administrators	5.7	8.0	4.3	4.6	5.6
Other Administrators	0.0	0.0	2.8	0.0	0.9
Professional Education: Subtotal	**68.4**	**62.1**	**67.9**	**65.3**	**65.2**
Counseling	2.8	2.6	1.9	1.7	2.1
Librarian / Media	0.9	0.9	0.9	0.9	0.9
Remedial Specialists	0.0	0.9	2.8	2.6	2.1
Regular Education Teachers	49.7	51.6	48.4	46.4	48.8
Special Education Teachers	6.6	0.9	3.8	5.8	3.5
Vocational Education Teachers	3.8	2.6	0.9	1.7	1.7
Tutor / Small Group Instructor	0.0	0.0	5.5	0.0	1.9
Educational Service Personnel[1]	4.6	2.6	2.8	6.2	3.6
Other Professional	0.0	0.0	0.9	0.0	0.3
Professional – Other	**1.7**	**0.9**	**1.9**	**1.5**	**1.4**
Technical: Subtotal	**2.6**	**0.5**	**0.9**	**1.3**	**0.9**
Library Technician	0.0	0.0	0.0	0.6	0.2
Library Aide	2.6 [2]	0.5	0.9	0.0	0.5
Other Technical	0.0	0.0	0.0	0.7	0.2
Office / Clerical: Subtotal	**11.1**	**6.3**	**4.0**	**13.0**	**7.7**
Bookkeeping	0.0	1.2	0.0	0.0	0.4
Clerical	3.3	4.5	4.0	3.0	3.8
Teaching Aide	6.6	0.6	0.0	6.9	2.5
Other Office / Clerical	1.2	0.0	0.0	3.1	1.0
Crafts / Trades	**1.0**	**0.9**	**2.6**	**2.6**	**2.0**
Transportation	**7.6**	**6.0**	**5.5**	**5.1**	**5.5**
Custodial	**6.6**	**4.3**	**5.1**	**6.1**	**5.2**
Food Service	**3.9**	**3.1**	**3.0**	**5.0**	**3.7**
Monitoring	**0.0**	**0.6**	**0.7**	**0.0**	**0.4**
Groundskeeping	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**
Total FTEs	**110.9**	**94.4**	**100.6**	**106.2**	**100.3**

Source: FY 2001-02 EMIS Staff Summary Report and School Enrollment from TVSD and the peer districts
[1] The educational service personnel classification only includes art, music and physical education teachers. All other positions classified as educational service personnel according the Ohio Administrative Code are coded separately in EMIS. See **R3.3** for further analysis on all educational service personnel.
[2] The District has implemented an accelerated reading program which has seen circulation of reading materials increase by 85 percent from FY 1999-00 to FY 2000-01. Approximately 24,400 materials circulated during the first six months of FY 2001-02 which was 69 percent of the entire circulation for FY 2000-01. When TVSD moved to its new facility, it reduced one full-time librarian and added two library aides which resulted in a annual savings of $38,800.

As illustrated in **Table 3-2**, TVSD has a higher FTE per 1,000 ADM staffing allocations as compared to the peers in the following classifications:

- Counseling (**see R3.3**);
- Regular education teachers;
- Special education teachers (**see R3.2**);
- Vocational education teachers;
- Educational service personnel (**see R3.3**);
- Library aides;
- Teaching aides (**see R3.4**);
- Transportation (see the **transportation** section); and
- Custodial (see the **facilities** section).

The staffing levels of the regular education teachers were analyzed during this performance audit. As a result of the analysis, regular education teachers' staffing levels are adequate as compared to the peers and State benchmarks, and do not warrant any staffing changes. Additional staffing analyses were also conducted on vocational education teachers and library aides. Based upon the results of these analyses, no recommendations are warranted.

Collective Bargaining Agreements

Certificated and classified personnel within TVSD are governed by negotiated agreements. During this performance audit, certain contractual and employment issues were assessed and compared to the peer districts. Because contractual and employment issues directly affect the operating budget, many of the issues have been analyzed to show the financial implication on TVSD. The implementation of any recommendations concerning contractual issues would require union negotiations. **Table 3-3** and **Table 3-4** illustrate key contractual issues in the certificated and classified negotiated agreements.

Table 3-3: Certificated Contractual Agreement Comparisons

	TVSD	LCSD	SLSD	TCSD
Length of work day	7 hours, 30 minutes	7 hours, 30 minutes	7 hours, 35 minutes	7 hours, 30 minutes
Maximum class size	K to 2 : 20 3 to 6 : 25 7 to 12 : 28 [1]	25 students (typical class size is 18 students)	20 students	25 students
Number of Contract Days **Instructional Days** **In-Service Days** **Parent/Teacher Conference** **Professional Development**	**183 days** 179 days 2 days 2 days Unlimited [2]	**186 days** 180 days 3 days 2 days 1 day	**183 days** 180 days 3 days 0 day 0 day	**183 days** 180 days 1 days 2 days $400 worth
Maximum number of sick days accrued	195 days	212 days	200 days	280 days
Maximum number of sick days paid out at retirement	68 days	53 days	50 days	70 days
Number of personal days **Notice required**	3 days 3 days notice	3 days 72 hours or 3 calendar days	3 days 5 days notice	3 days 5 days notice
Number of leave days for association business	3 days	3 days	None	9 days
Sabbatical leave	1 year allowed after 5 years of service	2 years unpaid, with requirement to return to service for 1 year	Granted on a situation to situation basis	1 year allowed after 5 years of service
Pick-up of employee's STRS contribution by district	None	None	None	None
Cost of living increases each year of the contract	1999-00: 3% 2000-01: 3% 2001-02: 3%	3.5 %	3 % per negotiation	5 %

Source: Certificated negotiated agreements from TVSD and the peer districts; interview with the personnel of TVSD and peer districts

[1] These figures are not actual numbers, but are used for administrative purposes.

[2] Unlimited days are allowed, but only with approval from principal or superintendent.

Table 3-4: Classified Contractual Agreement Comparisons

	TVSD	LCSD	SLSD [1]	TCSD
Minimum call-in hours paid to employees for emergencies	3 for bus drivers 2 for all others [2]	None	None	None
Vacation time to accumulate	1 to 5 years: 10 days 5 to 15 years: 15 days 15 to 20 years: 20 days 20 + years: 25 weeks	1 to 5 years: 10 days 6 to 10 years: 15 days 11 to 15 years: 18 days 16+ years: 20 days	0 to 10 years: 10 days 11 to 20 years: 15 days 20 + years: 20 days	0 to 4 years: 10 days [3] 5 to 11 years: 15 days 12+ years: 20 days
Sick / Personal leave incentive	Attendance Bonus Account of $300 which is deducted at the rate of $100 per personal day, $75 per sick day, $60 per other day of personal use	Employees who use 0 days of unrestricted personal leave during the year shall receive a stipend of $100; employees who miss a total of two or less days for unrestricted personal leave will receive a stipend of $40.	None	Employees receive one day of pay if the employee does not use any personal leave; an employee receives 3 day's pay for using zero sick leave; 2 days pay for using 1 sick leave day and 1 day of pay for using 2 days of sick leave
Maximum number of sick days accrued	195 days	215 days for 1999-00, 217 days for 2000-01, and 219 days for 2001-02	200 days	260 days
Maximum number of sick days paid out at retirement	48.75 days	53 days	50 days	85 days
Number of personal days **Notice required**	3 days 3 days notice	3 days 72 hours or 3 calendar days notice	3 days 5 days notice	3 days 3 days notice
Number of holidays for 12-month employees	9 holidays	9 holidays	10 holidays	9 holidays
Number of holidays for 9-month employees	7 holidays	6 holidays	6 holidays	10 holidays
Number of leave days for association business	President of local or designee is allowed 3 days to attend annual OAPSE conference.	2 days for representatives, 3 days for state officers or executive board members	None	The Association President (or Designee) and one other delegate shall each be allowed 2 days paid released time each year to attend the Statewide OAPSE Convention
Pick-up of employee's SERS contribution by district	None	None	None	None
Cost of living increases each year of the contract	Approximately 1.5 %	3.5%	3 %	5 %

Source: Certificated negotiated agreements from TVSD and the peer districts; interview with the personnel of TVSD and peer districts
[1] SLSD's classified employees do not belong to a union and do not have a negotiated agreement.
[2] Minimum call-in hours for an emergency is a standard business practice. The minimum number of hours guaranteed for an emergency at TVSD appears to be reasonable.
[3] Classified employees at TCSD begin earning vacation leave after 90 days of employment.

In addition to the analyses in this report, additional assessments were conducted on several areas within the human resources section which did not warrant changes and did not yield any recommendations. The areas where additional analysis was conducted is stated below, as well as reasons why no changes were warranted.

- *Regular education staffing levels:* TVSD's student-to-teacher ratios are greater than the peer average.

- *Vocational education staffing levels:* TVSD reduced one vocational education teacher for FY 2002-04 and projected revenues are anticipated to meet the District's vocational education expenditures.

- *Library aide staffing levels:* TVSD reduced overall operating costs by increasing the number of library aides and decreasing the number of librarians during FY 1995-96. The library aides are used to further administer the District's accelerated reader program.

- *Salaries:* The District's overall salaries are comparable to the peers and the peer average.

- *Leave usage:* The District's attendance rate of 96.4 percent is higher than the State average of 95.3 percent.

- *Medical and dental insurance monthly premiums:* The District's monthly insurance premiums are comparable to the State average reported in SERB. Furthermore, employee monthly contributions are higher than SERB reported state averages.

- *Negotiated agreements:* Contractual and employment issues assessed were comparable to the peers and various best practices.

Recommendations

R3.1 TVSD should develop policies and procedures to ensure that accurate reports are prepared and reconciled before being submitted to ODE and EMIS.

During a review of various EMIS reports for this performance audit, it was discovered that TVSD had classified some employees incorrectly when entering information into EMIS. ODE developed and implemented EMIS to assist school districts in effectively and efficiently managing student and personnel demographics. All schools are required to provide specific student, staff and financial data to ODE for processing. Entering data correctly helps to ensure comparability between school districts. In addition, the various data entered into EMIS can be used by school districts when making decisions, including required staffing levels.

In addition to developing policies and procedures to ensure that accurate reports are prepared and reconciled, TVSD should ensure that someone independent of the data gathering process reviews the information to ensure accuracy of the numbers. Furthermore, TVSD should consistently use the EMIS Definitions, Procedures, and Guidelines report which is produced annually by ODE to assist school districts in entering information into EMIS. If it is needed, TVSD should seek the necessary training and assistance to meet these objectives.

Staffing

R3.2 TVSD should develop a system to track special education revenues and expenditures in order to determine that it is maximizing its available resources.

During FY 2001-02, TVSD had 118 students enrolled in the special education program. Seven FTEs were responsible for educating these students. Classes were located in a resource room and in mainstream classrooms. TVSD received $697,223 during FY 2001-02 for special education and total General Fund expenditures during this same period were $726,670. While the total General Fund expenditures were less than the amount of funding received, the total special education expenditures for all funds were greater than the funding received.

Bellevue City School District (BCSD) has established a method of recording expenditures and revenues for special education programs. This method shows revenues by category which is further broken down by FTE, per pupil amount, cost of doing business factor and the state share percentage for BCSD. All expenditures are broken down by the instructor's salary, salaries for extended days (if applicable), retirement contributions and insurance benefits. This tracking method permits BCSD to monitor total special education expenditures and ensure minimal General Fund resources are used for special education programs.

TVSD should create a similar method to track the special education revenues and expenditures. It is important that TVSD monitor the special education expenditures to ensure it is maximizing the use of General Fund resources. Better tracking of special education revenues and expenditures could free up additional General Fund resources to be used in other areas within the District.

R3.3 TVSD should review its staffing in the educational service personnel (ESP) classification for a potential reduction of 2.0 FTE. Classifications which should be reviewed for possible reductions include art teachers, music teachers, physical education teachers and counselors. However, before the District makes any reductions, it should determine the potential impact on the attainment of TVSD's mission and goals. Additional factors which TVSD should consider are impact on student contact time, as well as the financial situation of the district.

Table 3-5 compares the staffing levels of all ESP staff at TVSD for FY 2001-02 with the peer districts' staffing levels for FY 2001-02. The staffing levels are illustrated in FTEs.

Table 3-5: Comparison of ESP Staffing Levels per 1,000 Students

Classification	TVSD	LCSD	SLSD	TCSD	Peer Average
ESP Teachers[1]	4.9	3.0	3.0	7.1	4.4
Counselors	3.0	3.0	2.0	2.0	2.3
Librarian Media Specialists	1.0	1.0	1.0	1.0	1.0
Registered Nurses	0.8	1.0	1.0	1.0	1.0
Totals	**9.7**	**8.0**	**7.0**	**11.1**	**8.7**
FY 2001-02 ADM	1,055.0	1,168.0	1,063.0	1,151.0	1,127.3
ESP FTE per 1,000 ADM	**9.2**	**6.8**	**6.6**	**9.6**	**7.7**

Source: EMIS reports from TVSD and peer districts
[1] This classification includes those instructors which teach art, music, or physical education classes.

As illustrated in **Table 3-5,** TVSD has 9.2 FTEs per 1,000 students for ESP which is the second highest of the peers and significantly greater than the minimum standards identified by OAC 3301-35-05(A)(4) of 5.0 FTEs per 1,000 students. Approximately 50.5 percent of TVSD's ESP instructors are art, music or physical education teachers which have direct instructional contact with students throughout the day. If TVSD adjusts its ESP staffing ratio to the minimum standards identified in OAC 3301-35-05(A)(4), it could reduce current staffing levels by approximately 4.0 FTEs. A reduction of fewer than 4.0 FTEs would allow TVSD to remain above the minimum standards while also reducing costs.

Financial Implication: Assuming an estimated annual salary of $38,395 per educational service personnel and benefits equal to 30 percent of annual salaries, TVSD could generate an estimated annual cost saving of approximately $99,800 as a result of reducing its educational service personnel by 2.0 FTE.

R3.4 TVSD should assess its staffing levels in the teaching aide classification for a potential reduction of 3.5 FTE (4 individual positions) in the specific areas of study hall monitoring and cafeteria/playground supervision. These four positions do not require a degree for the duties to be performed. Two of the peer districts actively use parents, professionals, retirees, high school students and other community-service minded people as volunteers in their school districts. TVSD should examine the feasibility of replacing these positions with volunteers. Because TVSD's certificated employees are unionized, the implementation of this recommendation would require negotiations.

TVSD employs 7.0 FTEs as teaching aides which is higher than the peers in this EMIS classification. However, the peers have classified employees with similar responsibilities as TVSD's teaching aides in other EMIS classifications. **Table 3-6** compares the staffing levels of TVSD's teaching aides with the peer FTEs with similar responsibilities.

Table 3-6: Comparison of Teaching Aide Staffing Levels per 1,000 Students

Classification	TVSD	LCSD	SLSD	TCSD	Peer Average
Teaching Aide	7.0	0.7	0.0	7.9	2.9
Remedial Specialists	0.0	1.0	3.0	3.0	2.3
Tutor / Small Group Instructor	0.0	0.0	5.9	0.0	2.0
Monitors	0.0	0.7	0.7	0.0	0.5
Totals	**7.0**	**2.4**	**9.6**	**10.9**	**7.7**
FY 2001-02 ADM	1,055.0	1,168.0	1,063.0	1,151.0	1,127.3
Teaching Aide FTE per 1,000 ADM	**6.6**	**2.1**	**9.0**	**9.5**	**6.8**

Source: EMIS reports from TVSD and peer districts

Two teaching aides in the elementary school (1.76 FTEs) are responsible for cafeteria and playground monitoring while two teaching aides in the middle/high school (1.76 FTEs) are responsible for study hall monitoring. TVSD does not require an individual to possess a college degree for these positions; however, it does require the individuals to possess Educational Aide certification. Educational Aide certification is granted by the State on either a one-year or four-year basis. To obtain a one-year certificate, an individual must complete an application form, be a high school graduate, reside in Ohio for five years and complete a background check. A four-year permit is obtainable only after being a full-time employee in a school district for one year.

Two of the peer school districts (LCSD and SLSD) minimize the number of teaching aide FTEs by using volunteers. While neither of the two peer districts requires volunteers to obtain the Educational Aide certification, both peer districts use volunteers who want to donate their time to the education of students in an effort to minimize educational support costs. It does not appear that the use of volunteers will have an educational effect on TVSD. As stated in **Table 3-6**, the number of teaching aide FTEs per 1,000 ADM at TVSD compares favorably to the peer average. However, the use of volunteers will permit TVSD to allocate additional financial resources to other educational areas within the District.

Financial Implication: Assuming an estimated annual salary of $12,303 per teaching aide and benefits equal to 30 percent of annual salaries, TVSD could generate an estimated annual cost saving of approximately $56,000 as a result of reducing its teaching aide personnel by 3.5 FTE.

Financial Implications Summary

The following table is a summary of estimated annual cost savings from the above recommendations.

Summary of Financial Implications Not Subject to Negotiations

Recommendations	Estimated Annual Cost Savings
R3.3 Reduction in education service personnel	$99,800
R3.4 Reduction in teaching aides	$56,000
Totals	**$155,800**

Conclusion Statement

While TVSD appears to have adequate staffing levels within its largest personnel classification (regular education teachers), other classification areas appear to have excess personnel based upon peer comparisons and other available benchmarks. ESP staffing levels at TVSD are higher than the peer average and higher than the OAC minimum standards of 5.0 FTEs per 1,000 students. As a result, TVSD could potentially reduce staff in this area which would permit available resources to be allocated to other areas within the District. In addition, TVSD should implement the use of community volunteers into its practices. Examples of areas where other school districts use volunteers include the following: reading programs; classroom, cafeteria and playground monitoring; transportation of students. If TVSD should choose to bring volunteers into their system, a reduction of FTEs could be made in the area of teaching aides.

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Facilities

Background

The facilities section focuses on custodial and maintenance operations within Twin Valley Community Local School District (TVSD). The objective of this section is to analyze the building operations of TVSD and develop recommendations for improvements in operations and reductions in expenditures. Comparisons are made throughout the report to the following peer school districts: Liberty Center Local School District (LCSD), Spencerville Local School District (SLSD) and Tri-County North Local School District (TCSD).

In May 1993, the TVSD voters approved a 5.7 mill bond issue which generated approximately $3.6 million for the construction of a new K-12 building and renovations to an existing facility. The Ohio School Facilities Commission (OSFC) provided TVSD with approximately $13.2 million for the construction project. The construction of the building was completed in August 1995 which included renovating West Alexandria Elementary School and building an addition on the existing structure to create a 195,000 square foot, state-of-the-art school facility. In 1995, TVSD closed its two other school buildings and moved its operations, including its central offices, into the new facility.

Organizational Structure

The transportation/maintenance supervisor is responsible for overseeing the custodial, maintenance and transportation operations for TVSD. The supervisor is responsible for ordering custodial and maintenance supplies, arranging and scheduling repairs from outside vendors, and performing other administrative duties, including evaluating and scheduling the maintenance and custodial staff. Fifty percent of the supervisor's time is dedicated to managing custodial and maintenance operations and the remainder is spent on managing transportation functions. The TVSD superintendent spends approximately 10 percent of each day on facilities operations.

The goal of the custodial and maintenance staff is to provide the students with a safe, attractive and clean place to learn, play and develop. As a result, the custodial staff is responsible for opening, closing and cleaning the TVSD complex. All custodians report directly to the transportation/maintenance supervisor and have the same job duties and responsibilities dependent on shifts and assignments within the building. The maintenance staff consists of one full-time individual who is responsible for completing maintenance and repairs in the school complex as well as preventive and routine bus maintenance. The maintenance worker reports directly to the transportation/maintenance supervisor.

The upkeep of TVSD grounds is completed on an as-needed basis by custodial (grounds work) substitutes. These substitutes complete all of the mowing and trimming in the District and maintain the athletic fields (mowing, trimming and lining). The District uses a substitute employee in addition to the maintenance employee on an as-needed basis for building and transportation maintenance. **Table 4-1** contains the staffing and number of full-time equivalents (FTE) employees responsible for TVSD's facilities.

Table 4-1: Number of Positions and FTEs for FY 2001-02

Classification	Total Number of Positions	Number of FTEs
Superintendent	1	0.10
Transportation/ Maintenance Supervisor	1	0.50
Total Administration	**2**	**0.60**
Maintenance	1	0.50
Maintenance substitute [1]	1	0.03
Total Maintenance	**2**	**0.53**
Custodian	7	7.00
Custodian substitute [2]	2	0.42
Total Custodian	**9**	**7.42**
Total	**13**	**8.55**

Source: TVSD Superintendent's Office
[1] The maintenance substitute is responsible for providing additional building and transportation maintenance support on an as-needed basis.
[2] The custodian substitutes are responsible for performing all grounds work within TVSD on an as-needed basis. Since the custodian substitutes are not providing actual custodial support, they are not included in the square footage per custodian analysis (**Table 4-2**).

Key Statistics

Key statistics related to the maintenance and operations of TVSD are presented in **Table 4-2**. In addition, results from the 31st Annual American Schools & University (AS&U) Maintenance & Operations Cost Study, which was released in April 2002, are included in **Table 4-2** and throughout this section of the report. AS&U mailed a detailed survey to chief business officials at public school districts across the nation to gather information regarding staffing levels, expenditures and salaries for maintenance and custodial workers. Unlike previous years, where results were divided into regions, this year's report provides the median number for each category on a national level and by district enrollment (less than 1,000 students; 1,000 to 3,499 students; and greater than 3,500 students).

According to the 31st Annual AS&U study, "As has gone the economy over the past couple of years, so went spending by school districts on maintenance and operations. Even as the effects of inadequate maintenance continue to plague many of the nation's school buildings, maintenance and operations budgets continue to be among the first cut during tight financial times – resulting in a classic 'pay me now or pay me later' scenario."

Table 4-2: Key Statistics and Indicators

Number of School Buildings	**1**
Total Square Feet Maintained	**195,000**
Square Feet Per FTE Custodial Staff Member (7.00 FTE)	**27,857**
AS&U 31st Annual Cost Survey 1,000 – 3,499 students	**24,782**
AS&U 31st Annual Cost Survey National Average	**23,985**
Peer District Average	**30,104**
Square Feet Per FTE Maintenance Employee (0.53 FTE)	**195,000**
AS&U 31st Annual Cost Survey 1,000 – 3,499 students	**86,204**
AS&U 31st Annual Cost Survey National Average	**89,000**
Peer District Average	**185,355**
FY 2001-02 Maintenance and Operations Expenditures Per Square Foot	**$3.38**
- Custodial and Maintenance	$2.29
- Utilities	$1.09
Peer District Average	**$3.70**

Source: TVSD and peer districts; AS&U 31st Annual Maintenance and Operations Cost Survey

[1] The actual square feet per FTE maintenance employee ratio is actually higher than 195,000. However, TVSD maintenance employees cannot maintain more square feet than the actual number of square feet within the District.

Financial Data

Table 4-3 illustrates General Fund expenditures incurred to maintain and operate TVSD's facilities for FY 2000-01, FY 2001-02 and budgeted amounts for FY 2002-03.

Table 4-3: Maintenance and Operations Expenditures

Accounts	FY 2000-01 Actual	FY 2001-02 Actual	Percentage Change	FY 2002-03 Budget	Percentage Change
Salaries	$230,406	$245,329	6.5%	$227,700	(7.2%)
Benefits	82,576	89,559	8.5%	64,500	(28.0%)
Purchased Services	93,719	62,436	(33.4%)	76,750	22.9%
Utilities	215,516	213,489	(0.9%)	219,983	3.0%
Supplies/ Materials	35,192	47,255	34.3%	50,500	6.9%
Capital Outlay	15,738	1,050	(93.3%)	0	(100.0%)
Total	**$673,147**	**$659,118**	**(2.1%)**	**$639,433**	**(3.0%)**

Source: TVSD Treasurer's Office

Explanations for some of the significant variances in **Tables 4-3** are as follows:

- *A 7.2 percent decrease in salaries from FY 2001-02 to FY 2002-03 budget:* In FY 2002-03, custodial and maintenance staff received a zero percent cost of living increase; however, the decrease in the budgeted amount is attributed to the District not budgeting for vacation, sick, holiday and calamity pay. According to the treasurer, it is difficult to determine the amount of leave employees will take. While this is accurate for sick leave, the District can determine holiday and vacation leave based on the guidelines set forth in the bargaining unit agreement.

- *A 28.0 percent decrease in benefits from FY 2001-02 to FY 2002-03 budget:* The demutualization of Anthem Insurance allowed the District to sell off stock issued because of the demutualization and then use the proceeds from the stock sales to reduce the District's insurance costs. The sale of stocks occurred in FY 2001-02 and the payment of monthly premiums from the proceeds will continue into FY 2002-03. Therefore, the District's budgeted amount for benefits in FY 2002-03 is significantly less than the expenditures incurred during FY 2001-02.

- *A 33.4 percent decrease in purchased services from FY 2000-01 to FY 2001-02 and a 22.9 percent increase for FY 2002-03 budget:* The District's copier service provider has been inconsistent in its billing practices over the past four years, resulting in fluctuations in expenditures. In FY 1998-99, the District paid for copier maintenance and service for FY 1997-98 and FY 1998-99. This occurred again in FY 2000-01 when the District paid for copier maintenance and service for FY 1999-00 and FY 2000-01. Payment for two years of maintenance and service will occur in FY 2002-03 when the District will pay for FY 2001-02 and FY 2002-03 copier costs. The four copiers generally cost the District approximately $11,000 to $12,000 annually. The District is now contracting with another company and expects that the billing issue will be resolved.

- *A 34.3 percent increase in supplies and materials from FY 2000-01 to FY 2001-02 and a 6.9 percent increase for FY 2002-03 budget:* Expenditures for supplies and materials have increased over the past two years due to failing light fixtures, replacing light bulbs in exit signs and other various repairs. Expenditures for the District's alarm and fire systems also vary from year to year due to system failures as a result of electrical storms and blackouts. Each time the District experiences an electrical storm or blackout, TVSD is charged a fee for resetting the system.

- *A 93.3 percent decrease in capital outlay from FY 2000-01 to FY 2001-02 and a 100.0 percent decrease for FY 2002-03 budget:* In FY 2000-01 paving was completed around the bus maintenance building. No capital improvements are scheduled for FY 2002-03.

Revenue from the General Fund is used to support the maintenance and operation of TVSD's facilities. As shown in **Table 4-3**, in FY 2001-02, the General Fund provided $659,118 for building operation expenses including custodial and maintenance employees' salaries and benefits, supplies and materials, purchased services, and capital outlay. **Table 4-4** compares TVSD's FY 2001-02 General Fund custodial and maintenance-related expenditures per square foot to the peers.

Table 4-4: FY 2001-02 General Fund Expenditures per Square Foot

Expenditure	TVSD	LCSD [1]	SLSD	TCSD [2]	Peer Average	AS&U National Median 1,000 – 3,499 Students
Custodial and Maintenance Salaries and Benefits	$1.72	$1.50	$2.73	$1.37	$1.87	$1.63
Purchased Services	0.32	0.41	0.36	0.42	0.40	0.02
Utilities	1.09	1.15	0.68	0.84	0.89	1.20
Supplies/ Materials	0.24	0.34	0.56	0.10	0.33	0.28
Capital Outlay	0.01	0.52	0.10	0.00	0.21	N/A
Other	0.00	0.00	0.01	0.00	0.00	0.17
Total General Fund Expenditures	**$3.38**	**$3.92**	**$4.44**	**$2.73**	**$3.70**	**$3.30**

Source: TVSD and peer district Treasurers' Offices, FY 2001-02 expense budget worksheets for the General Fund, function 2700

[1] The supervisor's salary at LCSD is allocated 100 percent in the administrative function; however, TVSD charges 50 percent of the supervisor's salary to function 2700. If 50 percent of the LCSD supervisor's salary was included, the salary and benefit expenditure would increase to $1.59 and total General Fund expenditures would increase to $4.01.

[2] TCSD has a Permanent Improvement Levy (PIL) which supplements the General Fund spending. If the PIL funds facilities-related expenditures were included in the table, the expenditures per square foot for Purchased Services would increase to $0.70, Supplies/Materials would increase to $0.16, Capital Outlay would increase to $1.13 and the total General Fund expenditures would increase to $4.21.

According to **Table 4-4,** TVSD's General Fund expenditures are less than the peer average in all line items except utilities. However, TVSD's utility expenditures per square foot are less than the national AS&U median. TVSD has the lowest total expenditures per square foot when TCSD's PIL expenditures are taken into account.

In addition to the analyses presented in this report, additional assessments were conducted on other areas within the facilities section which did not warrant changes and did not yield any recommendations. These areas include the following:

- *Energy conservation measures:* TVSD has a new building and it does not appear that there are additional areas where TVSD can benefit in this area. Furthermore, TVSD has been proactive in implementing various energy conservation measures.
- *Building use policy and fee schedule:* TVSD has a building use policy and an established fee schedule. The building use policy and fee schedule has been identified as a best practice.
- *Custodial staffing efficiency:* The District custodial FTE per square feet maintained is greater than the AS&U standards.

- *Custodial and maintenance salaries:* The District custodial and maintenance salaries were comparable with the peer districts.

- *Long range planning and facilities use:* TVSD has a new building with additional space available. Furthermore, there is no anticipated growth within the TVSD community in the next five years.

Recommendations

Custodial and Maintenance Operations

R4.1 TVSD should design an electronic work order request form that can be accessed by employees via the Intranet or e-mail system. The electronic format would allow the transportation/maintenance supervisor to receive work order requests immediately. On the form, space should be provided for the assigned employee to record the amount of time used to complete the request and the parts and supplies used. The building repairs and completed work order information should be recorded in a database to allow for easy tracking and analysis. In the future, database could be used to develop easily accessible, comprehensive building repair records.

TVSD will reinstitute its written work order procedure during FY 2002-2003. The procedure requires a written work order request, approved through the appropriate chain of command, to be forwarded to the transportation/maintenance supervisor. Using a paper system increases the probability of a request getting lost or misplaced and needed repairs being overlooked. Currently, the transportation/maintenance supervisor prioritizes the work order requests, assigns the work order duty and files the request. There are no comprehensive building repair records that are easily accessible and TVSD is unable to use work order processing as a measure of staff productivity. Finally, incomplete repair histories can hinder identifying the cause of system breakdowns and can impede troubleshooting efforts.

R4.2 TVSD should develop a work order log form to track maintenance requests and the time and resources used to complete each work order. TVSD should also require the maintenance staff to document what repairs and tasks have been completed each day. The transportation/maintenance supervisor should review logs periodically to monitor productivity and maintenance expenditures.

Currently, TVSD does not have a process or procedure to gauge the maintenance staff's productivity or to assess the workload. Without a structured work order system or completion of daily logs documenting how time was spent it is difficult to measure employee productivity. Completing daily logs would increase the accountability and potentially increase productivity by encouraging the streamlining of work processes. In addition, these logs would help the District identify any increases in the number of building maintenance repairs and provide useful information regarding staff workload.

R4.3 TVSD should assess its landscaping and grounds keeping expenditures to determine if it would be cost-effective to privatize its grounds keeping operations. In order to

begin the assessment, TVSD needs to separate and track its landscaping and grounds work expenditures to ensure accurate cost comparisons can be made.

The expenditures for the grounds work staff and the associated equipment and supplies are included in the General Fund, 2700 function; however, they are not distinguished from the building maintenance and repair expenditures so it is difficult to determine the overall cost of the grounds keeping operation. By separating the expenditures, TVSD will be able to compare its current grounds costs to that of private contractors. Once these costs are calculated, the District can gather information from area vendors and complete a cost-benefit analysis of maintaining the grounds using District staff or outsourcing.

R4.4 TVSD should develop and implement a formal planned preventive maintenance program. Preventive maintenance schedules for the building's heating, cooling, and plumbing systems should be developed. After determining which components will be included, preventive maintenance checklists, including task frequency, should be developed for each wing of the building. Most preventive maintenance tasks should be scheduled according to manufacturers' suggestions. After a task is completed, it should be recorded on the checklist or in a logbook. The transportation/ maintenance supervisor should review the logbook to ensure that work is being completed in a timely manner.

TVSD's facilities are seven years old and have been very well maintained. Its well-maintained facilities are due, in part, to its performance of some preventive maintenance but a formal written policy or procedure has not been developed. An effective preventive maintenance program can extend equipment life, decrease energy consumption, reduce maintenance and capital expenditures, reduce the number of work orders, and improve worker productivity by proactively maintaining equipment rather than responding to breakdowns and emergencies. The absence of a comprehensive preventive maintenance program increases the risk of incurring high emergency repair costs.

R4.5 TVSD should use custodial employees and the transportation/maintenance supervisor to complete minor maintenance repairs when the maintenance employee is unavailable. By using the custodial staff to perform minor maintenance repairs, it will ensure that appropriate repairs are made in a timely fashion without jeopardizing the safety and function of the facility.

TVSD does not use its custodial staff to complete minor maintenance and repairs. The maintenance employee is the only one who performs these job duties. According to the job descriptions, the custodial staff should be completing minor maintenance repairs. Custodians should be responsible for changing light bulbs throughout the year as needed.

R4.6 TVSD should account for all expenditures in accordance with the guidelines set forth in the USAS manual. The District should use the classified leave benefits object codes when budgeting salaries, instead of including benefits as a component of the salaries object code.

TVSD does not use the classified leave object codes when budgeting salaries. By not budgeting for classified leave in the separate object codes, TVSD may not have a clear portrayal of its leave balance liability during the budgeting process. TVSD should budget holiday and vacation leave based on the classified negotiated agreement and the years of experience of its custodial and maintenance employees in the separate object codes.

Staffing

R4.7 TVSD should use project time lines to reduce the use of substitutes for custodial employees during summer breaks. Instead, the District should require custodial staff stagger their leaves so the District does not have more than two custodians off at the same time.

The District currently uses substitutes to provide coverage for custodians on leave, even while school is not in session. During the summer months the custodial staff completes major cleaning tasks such as stripping, waxing and buffing floors. The District should begin developing project time lines for the major summer cleaning tasks. If the District limits the number of custodial employees on leave at the same time by staggering vacation schedules in conjunction with the project time lines, the remaining staff members should be able to complete the tasks with out the assistance of substitute custodians. Substitute custodians should only be used if needed to complete the project time lines in order for the facilities to be ready for the beginning of the school year.

Financial Implications: Assuming TVSD custodians take 10 days of vacation each summer and based upon the daily rate of pay for custodial substitutes, TVSD could realize an estimated annual cost savings of $5,600 by eliminating the use of summer custodial substitutes.

R4.8 TVSD should minimize the payment of overtime to substitute employees. The District should monitor each substitute's work schedule to ensure these employees do not work over 40 hours in one week. If it appears that the substitute is going to work more than 40 hours in one week, the District should attempt to adjust special trips or substitute duties to avoid overtime costs.

TVSD allows its grounds and maintenance substitute employees to receive overtime if the employees work more than 40 hours in a week. These hours are accrued by a combination of their bus routes, special trips and custodial/maintenance substitute hours. As a result of allowing its substitute employees to receive overtime, the District increases the cost of its facilities operations and minimizes available resources which can be used for the instruction of its students.

Financial Implications: Based on the substitute overtime costs incurred during FY 2001-02, TVSD could realize an estimated annual cost savings of $2,400 by eliminating overtime for its substitute employees.

R4.9 TVSD should re-examine its current maintenance staffing levels and consider the long-term maintenance requirements of its building.

As stated in **Table 4-2**, the current square feet per maintenance FTE is 98.5 percent higher than the peer average and 326.8 percent higher than average reported by the AS&U for schools the same size as TVSD. The current maintenance staffing levels appear to be adequate because TVSD's facilities are only seven years old and many components of the facility are covered by warranties and service agreements. However, maintenance requirements increase as school facilities age and, in the future, one part-time maintenance employee will be insufficient to maintain TVSD's facilities. Adequate long-term planning by TVSD management will assist the District in preparing for future needs as its facility ages and warranties expire.

Financial Implications Summary

The following table represents a summary of the annual cost savings for the recommendations in this section of the report. Only recommendations with quantifiable financial implications are listed.

Facilities Financial Implications Summary

Recommendation	Annual Cost Savings
R4.7 Eliminate use of substitute custodians (excluding grounds work) during summer breaks	$5,600
R4.8 Exclude substitute custodians from overtime usage	$2,400
Total	**$8,000**

Conclusion

Overall, TVSD's maintenance and custodial operations appear to be running efficiently and effectively and are adequately staffed despite the District's fiscal caution status. TVSD has done an excellent job identifying job duties for each of the custodians and dividing the tasks in an objective manner based upon International Sanitary Supply Association guidelines and time estimates. The District uses the current custodial staff solely for building tasks and employs substitutes to complete grounds work. By doing so, the District is able to maintain a high square footage per custodian. Also, the transportation/maintenance supervisor has developed job duty lists for each custodian. The lists provide custodial substitutes with the information necessary to complete the daily tasks with minimal guidance and instruction. As a result, custodial substitute productivity has been increased. TVSD has done an excellent job maintaining the current facility while keeping costs to a minimum.

TVSD could further reduce operational expenditures and increase the custodial and maintenance operation efficiency and effectiveness by electing to implement the recommendations in this section of the report. By implementing an electronic work order procedure and a daily work log, TVSD will be able to improve the overall efficiency and accountability of its maintenance operations. The custodial employees should complete minor maintenance duties according to the current custodial job descriptions to ensure that minor repairs are completed in a timely manner. Two opportunities to further reduce custodial operation costs were identified: eliminating the use of substitute custodians during summer breaks and eliminating overtime for substitute employees. By implementing these recommendations, the District can further improve the efficiency and effectiveness of custodial and maintenance operations.

Transportation

Background

The transportation section focuses on the transportation operations within Twin Valley Community Local School District (TVSD). The objective is to analyze the transportation operations of TVSD and develop recommendations for improvements and reductions in expenditures. Comparisons will be made throughout the report to the following peer school districts: Liberty Center Local School District (LCSD), Spencerville Local School District (SLSD) and Tri-County North Local School District (TCSD).

TVSD provided transportation to 978 regular needs students in FY 2000-01. The District transported 975 students by District-owned yellow buses and supported transportation for three non-public students through payment-in-lieu of transportation. TVSD has adopted a formal transportation policy that states that the District will provide transportation to all students who live more than one mile from their school of attendance provided the residence of the student is outside a municipal or village corporation limit. Students residing one mile or less from school may be transported by the school board-owned buses provided TVSD's Board of Education (Board) determines that there is a hazard or safety issue that exists between the residence and school of attendance. Typical hazard or safety issues include crossing four-lane roads, highways or railroad track. When the transportation of students by board-owned buses may be impractical, the parents or legal guardians of each student may be reimbursed for the State-determined average cost of transportation.

According to District policies, special needs students are given special transportation consideration if requested in writing by the parent(s) or legal guardian(s) to the Board in care of the local superintendent of schools. Special needs students are provided transportation to and from their assigned school as arranged administratively or are reimbursed through parental contracts when necessary. **Table 5-1** identifies the total riders at TVSD and the peer districts.

Table 5-1: Total Regular and Special Needs Riders

	TVSD	LCSD	TCSD	SLSD
Public	975	895	713	872
Non-Public	3	47	0	0
Total Regular Needs Riders	**978**	**942**	**713**	**872**
Total Special Needs Riders	19	7	17	0
Total Riders	**997**	**949**	**730**	**872**

Source: District's T-1 Forms and interviews

Organizational Structure and Function

The transportation/maintenance supervisor at TVSD is responsible for overseeing the transportation operations for TVSD. TVSD currently employs 10 full-time yellow bus drivers, 4 substitute yellow bus drivers, a secretary, a mechanic and a mechanic's helper. **Table 5-2** displays TVSD's staffing levels in comparison to the peer districts.

Table 5-2: District Staffing Levels

	TVSD		LCSD		TCSD		SLSD		Peer Average	
Staffing	**No.**	**FTE**	**No.**	**FTE**	**No.**	**FTE**	**No.**	**FTE**	**No.**	**FTE**
Supervisor/Assistant	1.0	0.5	1.0	0.5	1.0	0.5	2.0	0.2	1.3	0.4
Bus Driver	10.0	7.1	18.0	7.0	9.0	5.9	9.0	5.8	12.0	6.2
Mechanic/Assistant	2.0	0.6	2.0	0.7	1.0	1.0	1.0	1.0	1.3	0.9
Administrative Assistant	1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aides	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Operator (other than buses)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.7	0.3	0.2
Totals	**14.0**	**8.5**	**21.0**	**8.2**	**11.0**	**7.4**	**13.0**	**7.7**	**14.9**	**7.8**
Total Number of Students Transported	**997**		**949**		**730**		**872**		**850**	
Students Transported per Bus Driver FTE	**140.4**		**135.6**		**123.7**		**150.3**		**137.1**	
Students Transported per Total FTE	**117.3**		**115.7**		**98.6**		**113.2**		**110.4**	
Square Miles in District	**58.0**		**72.0**		**58.0**		**90.0**		**73.3**	
Square Miles per FTE	**6.8**		**8.8**		**7.8**		**11.7**		**9.5**	

Source: District's Transportation Departments

TVSD's transportation staffing levels, represented as actual staff and as FTEs, are in line with those of the peers. Based on FTEs, TVSD employs a transportation staff that is just slightly above the peer average but transports more students per bus driver FTE and total transportation staff FTE when compared to the peer average.

Operational Statistics

TVSD uses a fleet of 10 active and 5 spare buses to provide transportation to its regular needs students. Transportation of the special needs students is contracted out to the Montgomery County Educational Service Center (Montgomery ESC) and Preble County Educational Service Center (Preble ESC). In addition, TVSD operates two other vehicles: a delivery truck used by maintenance staff and a pickup truck used by the transportation/maintenance supervisor. These vehicles are maintained by the transportation mechanic. In FY 2000-01, TVSD served 978 students through the regular needs program, traveling approximately 180,720 miles.

The special needs transportation program at TVSD transported 19 students through Montgomer ESC and Preble ESC in FY 2000-01 at a cost of $96,666. These students were transported in Preble ESC owned buses. TVSD did not receive a separate reimbursement from the State for special needs transportation since it did not file a T-11 Form but included this amount on its T-2 Form as contract between districts. See **R5.4** for further analysis regarding special needs transportation costs.

Overall, TVSD transported 997 students for a total cost of $419,673, of which 49 percent ($204,689) was reimbursed by the State. **Table 5-3** provides basic operating statistics and ratios for TVSD and the peer districts.

Table 5-3: Basic Operating Statistics

	TVSD	LCSD	TCSD	SCSD
Operational Statistics:				
Students Transported				
- Regular students	978	942	713	872
- Special needs	19	7	17	0 [1]
- Total	997	949	730	872
Miles Traveled				
- Regular students	180,720	181,980	119,700	153,900
Square Miles in district	58	72	58	90
Expenditures				
- Regular students	$323,007	$343,763	$264,155	$344,062
- Special needs	$96,666	$19,977	$71,959	$0 [1]
- Total	$419,673	$363,740	$336,114	$344,062
State Reimbursements				
- Regular students	$204,689	$207,315	$158,263	$175,665
- Special needs	$0	$6,281	$0	$0
- Total	$204,689	$213,596	$158,263	$175,665
Operational ratios:				
Regular students: Yellow Bus				
- Cost per mile	$1.79	$1.89	$2.21	$2.24
- Cost per bus	$32,301	$19,098	$29,351	$38,229
- Cost per student	$330	$365	$370	$395
- Students per bus	98	52	79	97
Special Needs Students:				
- Cost per student all methods	$5,088 [2]	$2,854	$4,233	$0 [1]
School Sites:				
- Public	1	1	1	3
- Non-public	0	0	0	0
Active buses	10	18	9	9
Spare buses	5	3	4	4

Source: District's T-1, T-2 and T-11 Forms; foundation settlement reports
[1] SCSD does transport special education students on a daily basis. However, it does not track the information and it does not file a T-11 Form with ODE. As a result, this information is not available.
[2] TVSD's higher costs are the result of contracts with Montgomery ESC.

As displayed in **Table 5-3**, TVSD's cost per mile and cost per student ratios compare favorably to the peer districts. The favorable cost ratios are due in part to the population of TVSD in comparison to the peer districts. The relative low population density of TVSD creates the need for the District to operate higher mileage routes. However, the positive effect of operating longer mileage routes is evident with TVSD's students per bus ratio being the highest among the peer districts.

In addition to the analyses presented in this report, additional assessments were conducted on several areas within the transportation section which did not warrant changes and did not yield any recommendations. These areas include the following:

- *Department expenditures:* Expenditures are comparable to the peers. As illustrated in **Table 5-3**, TVSD had the best operational regular student transportation ratios for cost per student and cost per mile during FY 2001-02.

- *Department staffing:* TVSD transported the most students per bus driver FTE and was the second lowest in students transported per total transportation department FTE (**Table 5-2**) during FY 2001-02.

- *Transportation policy:* Although TVSD's transportation practice allows for more students to be transported than what is recommended by the Ohio Revised Code, giving the physical nature of TVSD's rural area, the policy seems to be in line with its peers.

- *Routing and bell schedule:* TVSD uses a two-tier, two-bell schedule routing for its buses. This system equates to using its buses twice in the morning and twice in the afternoon to pick up students and take students home. Having multiple tier-bell schedules allows school districts to minimize the number of buses it needs to transport students.

- *Use of route optimizing software:* Considering the rural setting of TVSD and the cost analysis ratios developed in **Table 5-2**, it does not appear that TVSD would obtain significant benefits from the use of bus route optimizing software.

- *Fuel procurement policy:* It does not appear to be financially economical for TVSD to have its own fuel depot based upon the size of its active and spare bus fleet. Furthermore, the District has been able to secure competitive diesel fuel prices in a non-competitive situation.

TVSD has a bus replacement practice of purchasing a bus every other year. While there are currently no State minimum standards for the replacement of school buses, a general consensus among ODE personnel, private bus contractors and transportation departments is that buses should be replaced at 12 years of age or 200,000 miles for diesel buses (150,000 miles for gasoline buses). Regardless of age or mileage, as long a bus can pass the State inspection, a district may continue to use the bus for transportation. TVSD currently has eight buses (**Tables 5-5a** and **5-5b**) that exceed the 12-year guideline and/or the mileage benchmark.

Recommendations

R5.1 TVSD should adopt a 10-year bus replacement plan.

Currently, TVSD has a practice of replacing a school bus approximately every other year which approximates a 20-year bus replacement schedule. This long replacement period was adopted in order to save money and, according to District representatives, to avoid the appearance of extravagant spending. However, the 20-year replacement practice creates the need for the use of additional spare buses (**R5.2**). **Table 5-4** illustrates TVSD's last four bus purchases and the bus purchase allowances received from the State.

Table 5-4: TVSD's Bus Purchases and Allowances

Year	State Bus Allowance	Date of Purchase	Bus Purchase Cost
1993	$20,425		$0
1994	$19,329	May 1994	$55,123
1995	$22,264		$0
1996	$25,071		$0
1997	$32,862	March 1997	$56,141
1998	$26,339		$0
1999	$29,399	November 1999	$58,810
2000	$31,759		$0
2001	$0	June 2001	$54,925
2002	$26,822		$0
Total	**$234,270**		**$224,999**

Source: TVSD transportation department

As **Table 5-4** indicates, TVSD did not contribute any General Fund resources towards the purchase of its last four buses. Based upon the average number of miles driven per year, TVSD would have approximately five buses in its active fleet with more than 200,000 miles by the end of FY 2002-03. A 10-year bus replacement plan will provide the District with buses that have lower operating and maintenance costs (see **R5.2**) and fewer miles.

As noted in the **financial systems** section of this report, TVSD is already anticipating new bus purchases in FY 2002-03, FY 2004-05 and FY 2006-07. If TVSD implements a 10-year bus replace plan, the District will have more buses with lower miles. In turn, a newer bus fleet will lower TVSD's annual operating and maintenance costs.

Financial Implication: Based upon the average price for a new bus, TVSD would incur additional annual expenditures of approximately $55,000 if it were to purchase a new bus each year. Based on its current forecast (see the **financial systems** section), TVSD would incur the additional expenditure in FY 2003-04 and FY 2005-06. The amount of additional expenditures is not net of funds received from ODE as these amounts are separated within the financial forecast.

R5.2 TVSD should consider reducing the number of spare buses from its current inventory of five buses to two buses. However, TVSD should consider educational and extracurricular activities before implementation of this recommendation.

TVSD currently has five spare buses, which equates to 50 percent of the District's active bus fleet. General industry practices call for a school district to maintain spare buses for approximately 10 to 15 percent of its active bus fleet. **Table 5-5a** shows statistics relating to TVSD's spare bus fleet while **Table 5-5b** illustrates the statistics for route buses (active bus fleet).

Table 5-5a: TVSD Transportation Department's Spare Buses

	Year	Make	Fuel	Ending Mileage [1]	FY 2001-02 Mileage	Operational Cost per Mile [2]
Bus #25	1981	Chevrolet	Gasoline	174,955	832	$2.82
Bus #1	1986	Chevrolet	Diesel	190,276	3,013	$0.79
Bus #5	1987	GMC	Diesel	211,237	2,268	$1.45
Bus #7	1987	Chevrolet	Diesel	187,198	1,322	$1.05
Bus #11	1990	GMC	Diesel	201,645	4,387	$0.56
Average	**15.8 years**	N/A	N/A	**193,062**	**2,364**	**$1.00**

Source: TVSD Transportation Yearly Report 2002; ODE 2002 T-2; AOS worksheets
[1] The ending mileage reported is as of June 30, 2002.
[2] The operational costs include fuel, maintenance, repairs and insurance.

Table 5-5b: TVSD Transportation Department's Route Buses

	Year	Make	Fuel	Ending Mileage [1]	FY 2001-02 Mileage	Operational Cost per Mile [2]
Bus #2	1984	Chevrolet	Diesel	177,662	16,329	$0.41
Bus # 3	1997	Blue Bird	Diesel	64,037	14,073	$0.30
Bus #4	1987	GMC	Diesel	212,525	17,382	$0.49
Bus #6	2000	Thomas	Diesel	44,249	16,540	$0.29
Bus #8	1988	Ford	Diesel	208,605	12,673	$0.45
Bus #9	2002	Thomas	Diesel	29,133	28,608	$0.20
Bus #10	1989	Ford	Diesel	196,907	13,423	$0.38
Bus #12	1992	International	Diesel	187,569	21,980	$0.39
Bus #13	1992	International	Diesel	154,133	14,997	$0.48
Bus #14	1994	Blue Bird	Diesel	147,692	20,876	$0.36
Average	**9.5 years**	N/A	N/A	**142,251**	**17,688**	**$0.36**

Source: TVSD Transportation Yearly Report 2002; ODE 2002 T-2; AOS worksheets
[1] The ending mileage reported is as of June 30, 2002.
[2] The operational costs include fuel, maintenance, repairs and insurance.

The average maintenance cost per bus on its active bus fleet is approximately $3,200. However, TVSD has three newer buses in its active bus fleet and the average maintenance cost on these three buses is approximately $1,500.
The reduction of three spare buses from its fleet will reduce the District's associated operational costs of insurance and maintenance and bring TVSD in line with general industry standards. If TVSD reduces three spare buses over a five-year period, it will also receive additional revenue as a result of selling the buses through a public offering. Fayette County Public Schools in Lexington, Kentucky received $1,500 for a used bus after selling it in a public auction.

Financial Implication: Based on the District's FY 2001-02 transportation data, the reduction of three spare buses (one each in FY 2002-03, FY 2004-05 and FY 2006-07) would result in an annual savings of approximately $1,500 for FY 2002-03 and FY 2003-04; $3,000 for FY 2004-05 and FY 2005-06; and $4,500 in FY 2006-07. Assuming TVSD sells the three buses for an amount equal to that received by Fayette County Public Schools in Lexington, Kentucky, TVSD would receive one-time revenues of approximately $1,500 for the sale of each bus throughout the five-year period.

R5.3 TVSD should correct its T-Forms for FY 2001 and file them with ODE for possible additional reimbursements.

School districts must file a series of T-Forms each year with ODE to receive transportation reimbursements. The T-1 Form details the number of regular needs students, both public and private, receiving transportation and the mileage incurred by the buses providing this service. The T-2 Form breaks down all the transportation costs associated with regular needs student transportation. The T-11 Form includes the number of special needs students being transported, the method of transportation and the associated operating costs.

Once submitted to ODE, these forms are used to determine State funding amounts from the School Finance Foundation. The regular needs reimbursement amount received by TVSD for FY 2000-01 was based on the data provided by the T-1 and T-2 Forms and processed through ODE's reimbursement logarithm.

ODE funding of special needs transportation is also based on a formula of special needs students and the cost related to transporting these students. In FY 2000-01, TVSD's total special needs transportation expenditure was $96,666, but the District reported these costs on the T-2 Form for regular transportation.

TVSD should file amended T-Forms with ODE and develop internal procedures to ensure that future forms are completed accurately. It should file an amended T-2 and T-11 Forms showing $96,666 in special needs transportation costs and removing the same amount from the regular transportation costs on the T-2 Form. It is important to submit the correct transportation data to ODE to help in developing comparative statistics and transportation trends on both a statewide and local level. In addition, proper completion of T-Forms insures TVSD that it is receiving all available transportation funding.

Financial Implication: It cannot be predetermined if there will be a financial benefit to TVSD in filing amended T-Forms because of the logarithmic calculation used by ODE.

R5.4 TVSD should perform due diligence in reviewing the special education transportation services received from Montgomery ESC and Preble ESC as well as the associated special education transportation costs.

In FY 2001-02, TVSD spent $96,666 to transport 19 students. This equate to a cost per student of $5,088. TVSD uses the Montgomery ESC and Preble ESC to provide transportation services for its special needs students. One of its peers (Tri-County North Local School District) also uses Preble ESC for the transportation of its special needs students. However, its average cost per student is $4,233.

TVSD needs to be more involved in understanding how the financial costs are developed by Montgomery ESC and Preble ESC. Furthermore, it should ensure that the costs which it is incurring are reasonable in relation to the services received.

Financial Implications Summary

The following table represents a summary of the annual costs, one-time revenue and annual cost savings for the recommendations in this section of the report. For the purpose of this table, only recommendations with quantifiable financial impacts are listed.

Facilities Financial Implications Summary

Recommendation	Annual Costs	One-time Revenue	Annual Cost Savings
R5.1 Purchasing a new bus annually. [1]	$55,000		
R5.2 Reducing three spare buses.		$4,500	$4,500 [2]
Total	**$55,000**	**$4,500**	**$4,500**

[1] Based upon TVSD's current financial forecast, it would only incur the annual cost in FY 2003-04 and FY 2004-05.
[2] The total revenues and annual cost savings will be phased-in over a five-year period beginning in FY 2002-03 and commencing in FY 2006-07.

Conclusion Statement

Twin Valley Community Local School District's (TVSD) FY 2000-01 T-Forms did not accurately reflect the District's transportation expenditures for that year. Special needs transportation costs of approximately $96,666 were not reported, which may have resulted in TVSD receiving an incorrect reimbursement from ODE's School Finance Foundation.

TVSD could lower transportation costs by lowering its number of spare buses. The move would save, among other things, the costs of insurance and maintenance of the buses. A shorter, more liberal bus replacement plan may be more financially challenging for TVSD in the short term; however, such a plan would certainly result in a more efficient bus fleet leading to future financial benefits.

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