



Monroe Local Schools

FIVE-YEAR FINANCIAL FORECAST

For Fiscal Years 2007-2011

May 2007 Update

May 21, 2007

*Prepared & Presented by:
Kelley Thorpe, Treasurer Intern*

MONROE LOCAL SCHOOLS
Five-Year Forecast For Fiscal Years 2007-2011; May 2007 Update

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Monroe Local Schools

Continuing a tradition of excellence

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May 21, 2007

To the Members of the Board of Education:

The May Update for the Five-Year Financial Forecast for Monroe Local Schools for the period ending June 30, 2011, is hereby submitted. This report outlines the status of the organization's finances for the future and conforms to the reporting requirements established by the Ohio Department of Education and the Ohio Auditor of State. With this update, not all information from the October Five-Year Forecast has been duplicated. For more information, please refer back to the original document.

The Five-Year Forecast is a fluid document. Changes over time as financial conditions change are expected and therefore, this Forecast should not be used as an "absolute" projection of Monroe's future financial condition. The Forecast is designed to outline in broad terms the general financial direction and condition of the organization. It is intended to be a general guide to indicate trends or patterns that should be monitored over the next several years. It is also intended to establish financial targets of how we would like to perform financially, and changes that may be necessary to stay within budgetary benchmarks. The Forecast covers only the General Fund and is a useful document, but only represents about 80% of what we do as an organization. The Forecast for Monroe Schools will show the need of the District to plan for additional funding in the future.

As with any estimate or projection of the future, a financial forecast tends to be less accurate the farther out in the future they go. With changes in state funding, local property taxes, and academic programming, the first year of a forecast tends to be more reliable and accurate than the fifth year. The Forecast as submitted includes actions or decisions specifically taken by the Board of Education, as well as initiatives and programs planned for future implementation.

Respectfully submitted

Kelley Thorpe
Treasurer Intern

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

Executive Summary of the Five-Year Forecast

The Five Year Forecast financial projection is required by Section 5705.391 of the Ohio Revised Code to provide a method for Monroe Local School District Board of Education, the Ohio Department of Education, and the Ohio Auditor of State to identify whether the school district at may be facing financial difficulty over the next five years. The Auditor of State's Office and the Department of Education have designed the format of this projection. Responsibility for the preparation of the projection and the accuracy of reasonableness of the assumptions on which these projections are based rests with the Monroe Local School District administration and the Monroe Board of Education.

Nature and Limitations of the Forecast

The financial forecast presents, to the best of the Monroe Local School District (the District) Board of Education (the Board's) knowledge and belief, the expected revenues, expenditures and operating balance of the general and emergency levy funds. Accordingly, the forecast reflects the Board's judgment of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Operating Results

The Forecast of the General Fund shows the cash position increasing slightly for 2006-07 and again for 2007-08. The original Forecast from October showed Monroe completing FY07 with a small carryover and beginning a deficit year in FY08. This revised Forecast showing the newly passed levy funds definitely shows an improved financial position both for FY07 and FY08. However, the Forecast also demonstrates the need for Monroe to renew operating levies in both 2010 and 2011. Please take note that in 2010, simply renewing the current levy will not be effective – additional funds will be needed. It is also important to note that changes in tax laws and state funding could affect this Forecast in the later years of the projection.

Operating Revenues

Total operating revenues, excluding other financing sources, for the 2006-07 fiscal year are projected to reach \$16.7 million, representing a 12.5% increase over 2005-06 and a 5% increase over the past three years. This increase demonstrates the financial impact of the new 4.39 mill levy passed in November 2006. The major sources of revenue are local property taxes. This levy accounted for about \$475,000 in FY07 and will represent about \$1.1 million for FY08.

While the major sources of revenue are local property taxes, \$1.1 million of this total for FY07 is from cash flow borrowing. Both the borrowing and repayment are included in the forecast.

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

Operating Expenditures

Total operating expenditures, excluding debt and other uses, for the 2006-07 fiscal year are projected to reach \$15.7 million, representing a 3% increase over 2005-06 and an average annual increase of 7% over the past three years. This decrease can be primarily attributed to cuts that were made at the beginning of FY07.

The major sources of operating expenditures are personnel costs for faculty and staff wages and fringe benefits, supplies and materials for program and instructional needs, contracted and professional services, building utilities, and capital costs for equipment and technology. Repayment of the cash flow borrowing for \$1.1 million is also included in this cost.

State Budget

Every two years, Ohio adopts a two-year budget that funds all state operations including public education. Ohio schools have struggled in recent years as issues of equity and adequacy are addressed at the state level through a variety of legislative initiatives. As a result, school districts have experienced dramatic changes in funding from both state and local tax sources.

The 2006-07 fiscal year is the final year of the current biennial budget of the state. Current projections for the next biennial budget effective July 1, 2007 are preliminary and are not finalized. According to the most recent data from the State, Monroe will **not receive any additional funding** for the 2007-08 fiscal year despite an estimated 8.5% increase in student enrollment. This flat-lining of the state budget has been included in the update of this forecast.

The Forecast on the next page is required to be submitted to the Ohio Department of Education. Information about each line item can be found in the next section of this forecast.

MONROE LOCAL SCHOOL DISTRICT - - BUTLER COUNTY
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES FOR THE FISCAL YEARS ENDED
JUNE 30, 2004, 2005, AND 2006 ACTUAL;
FORECASTED FISCAL YEARS ENDING JUNE 30, 2007 THROUGH 2011

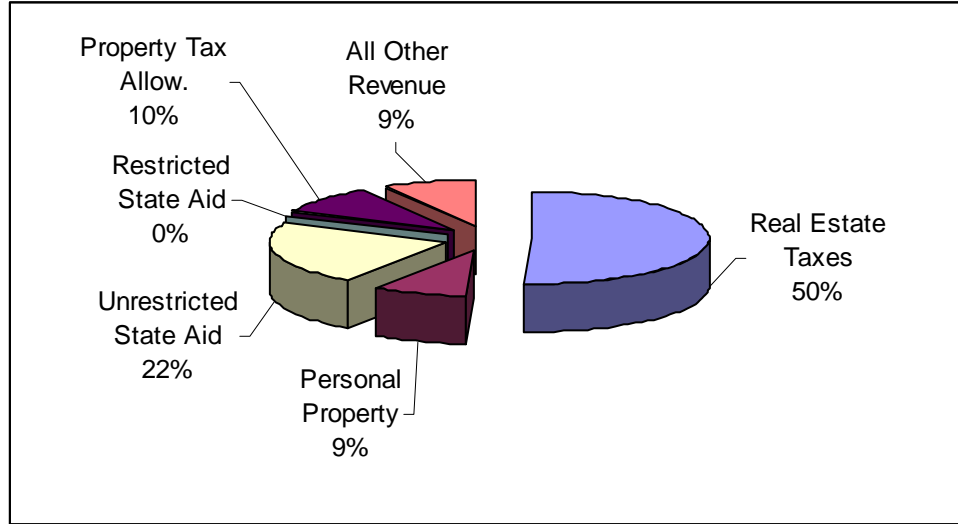
	Actual			Forecasted				
	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Revenue:								
1.010 General Property Tax (Real Estate)	5,495,688	5,741,498	6,698,954	8,181,060	8,903,829	9,635,032	9,803,023	9,865,710
1.020 Tangible Personal Property Tax	1,318,254	1,787,397	1,437,176	1,381,261	1,390,578	1,058,686	595,012	328,456
1.030 Income Tax	0	0	0	0	0	0	0	0
1.035 Unrestricted Grants-in-Aid	3,823,333	3,633,407	3,600,779	3,490,609	3,491,814	3,606,715	3,607,846	3,609,074
1.040 Restricted Grants-in-Aid	9,040	11,259	11,856	32,321	1,254	1,462	1,426	1,316
1.050 Property Tax Allocation	620,671	689,308	765,149	1,541,886	1,489,761	1,753,545	1,907,693	1,901,552
1.060 All Other Revenues	1,256,302	1,128,497	1,330,612	1,363,705	1,343,605	1,371,430	1,399,952	1,429,186
1.070 Total Revenues	12,523,288	12,991,366	13,844,526	15,990,841	16,620,842	17,426,871	17,314,952	17,135,294
Other Financing Sources:								
2.010 Proceeds from Sale of Notes	0	0	0	1,190,298	0	0	0	0
2.020 State Emergency Loans and Advancements	0	0	0	0	0	0	0	0
2.040 Operating Transfers-In.	235,175	2,000,000	0	0	0	0	0	0
2.050 Advances-In	142,440	154,753	169,322	0	0	0	0	0
2.060 All Other Financing Sources	33,472	10,238	97,506	-104,771	0	0	0	0
2.070 Total Other Financing Sources	411,087	2,164,991	266,828	1,085,527	0	0	0	0
2.080 Total Revenues and Other Financing Sources	12,934,375	15,156,357	14,111,354	17,076,368	16,620,842	17,426,871	17,314,952	17,135,294
Expenditures:								
3.010 Personal Services	7,568,378	8,273,319	8,391,347	8,038,332	8,882,137	9,673,662	10,401,809	11,050,247
3.020 Employees' Retirement/Insurance Benefits	2,139,260	2,222,348	2,399,478	2,361,814	2,750,363	3,126,160	3,484,366	3,778,521
3.030 Purchased Services	2,500,793	3,213,074	3,435,221	3,492,850	3,778,983	4,169,045	4,528,638	4,906,240
3.040 Supplies and Materials	589,232	746,262	642,978	489,751	579,444	671,827	766,982	864,991
3.050 Capital Outlay	253,159	138,981	150,474	56,330	273,020	521,211	476,847	531,152
3.060 Intergovernmental	0	0	0	0	0	0	0	0
Debt Service:								
4.010 Principal-All (History Only)	0	0	0					
4.020 Principal-Notes				1,190,298	0	0	0	0
4.030 Principal-State Loans				0	0	0	0	0
4.040 Principal-State Advancements				0	0	0	0	0
4.050 Principal-HB 264 Loans				0	0	0	0	0
4.055 Principal-Other				0	0	0	0	0
4.060 Interest and Fiscal Charges	0	0	0	85,457	0	0	0	0
4.300 Other Objects	267,882	417,446	324,020	354,734	365,376	376,337	387,627	399,256
4.500 Total Expenditures	13,318,704	15,011,430	15,343,518	16,069,566	16,629,323	18,538,243	20,046,270	21,530,407
Other Financing Uses								
5.010 Operating Transfers-Out	232,694	2,050,000	13,284	0	0	0	0	0
5.020 Advances-Out	185,487	1,814,432	22,369	0	0	0	0	0
5.030 All Other Financing Uses	30,389	0	35,129	0	0	0	0	0
5.040 Total Other Financing Uses	448,570	3,864,432	70,782	0	0	0	0	0
5.050 Total Expenditures and Other Financing Uses	13,767,274	18,875,862	15,414,300	16,069,566	16,629,323	18,538,243	20,046,270	21,530,407
Excess of Rev & Other Financing Sources over								
6.010 (under) Expenditures and Other Financing Uses	-832,899	-3,719,505	-1,302,946	1,006,802	-8,481	-1,111,371	-2,731,318	-4,395,114
Cash Balance July 1 - Excl Proposed Renewal/								
7.010 Replacement and New Levies	5,861,079	5,028,180	1,308,675	5,729	1,012,531	1,004,050	-107,321	-2,838,639
7.020 Cash Balance June 30	5,028,180	1,308,675	5,729	1,012,531	1,004,050	-107,321	-2,838,639	-7,233,753
8.010 Estimated Encumbrances June 30	35,180	12,015	70,689	75,000	75,000	80,000	80,000	80,000
Reservation of Fund Balance								
9.010 Textbooks and Instructional Materials	0	0	0	0	0	0	0	0
9.020 Capital Improvements	0	0	0	0	0	0	0	0
9.030 Budget Reserve	0	0	0	0	100,000	200,000	300,000	400,000
9.040 DPIA	0	0	0	0	0	0	0	0
9.050 Debt Service	0	0	0	0	0	0	0	0
9.060 Property Tax Advances	0	0	0	0	0	0	0	0
9.070 Bus Purchases	0	0	0	0	0	0	0	0
9.080 Subtotal	0	0	0	0	100,000	200,000	300,000	400,000
Fund Balance June 30 for Certification								
10.010 of Appropriations	4,993,000	1,296,660	-64,960	937,531	829,050	-387,321	-3,218,639	-7,713,753
Rev from Replacement/Renewal Levies								
11.010 Income Tax - Renewal				0	0	0	0	0
11.020 Property Tax - Renewal or Replacement				0	0	0	770,816	1,500,000
11.030 Cumulative Balance of Replacement/Renewal Levies	0	0	0	0	0	0	770,816	2,270,816
Fund Balance June 30 for Certification								
12.011 of Contracts, Salary and Other Obligations	4,993,000	1,296,660	-64,960	937,531	829,050	-387,321	-2,447,823	-5,442,937

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

Revenue and Other Financing Sources

Significant sources of revenues include general property tax, tangible personal property tax, unrestricted grants in aid, and all other revenue as shown in the following graph:



Effective, July 1, 2005, Districts are required by the State Legislature to adopt the changes included in the biennial budget bill, HB 66. The educational and tax reforms that have taken place as a result of HB 66 will have a significant impact on the District's calculation of Tangible Personal Property Taxes as well as Unrestricted Grants in Aid provided by the State of Ohio.

The percentages shown in the graph will change as a result of the tax reforms in forecast years 2008 through 2011. Those changes will be addressed as they impact Monroe Local School District throughout these assumptions.

General and Tangible Personal Property Taxes:

Property taxes consist of real property, public utility real and personal property, and tangible personal property taxes. Property values are established each year by the Butler County Auditor and are based on new construction, updated appraisal values, and commercial and industrial business growth during the triennial appraisal years.

Property tax revenue estimates are based on historical valuation growth patterns and are used by the Butler County Auditor to determine tax revenue distributions in fiscal year 2007 through 2011. Assessed valuations during the past years, have grown at an overall rate of at least 8-12% per year due primarily to increases in new real property construction. The increase per year in assessed valuation is 5.6% and has been used to calculate increases in projected revenues as appropriate for fiscal years 2005-2010 as shown below.

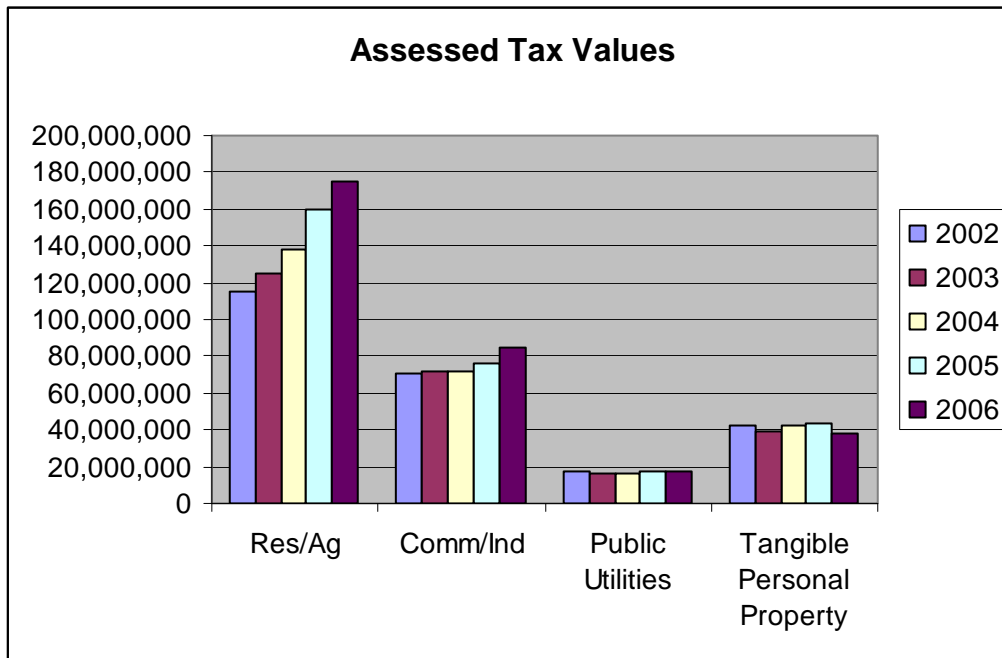
**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

2005	297,255,890 (actual)
2006	314,990,805 (actual)
2007	331,033,559 (estimated)
2008	359,540,746 (estimated)
2009	375,187,659 (estimated)
2010	400,340,205 (estimated)

As part of the reforms in HB 66, starting in tax year 2006 (fiscal year 2007), the phased elimination of the tangible tax base will begin and continues to occur over a (4) year period. The tax will be reduced 25% annually. Simply put, any increases in tangible personal property taxes will be fully realized in the 2006 fiscal year. The following table and graph show the growth patterns of all taxes assessed by the County Auditor on behalf of the District.

Year	Res/Ag	Comm/Ind	Public Utilities	Tangible Personal Property	Total Real Estate Value	% Change
2002	115,235,030	70,678,330	17,055,300	42,599,402	245,568,062	12.4%
2003	125,006,500	71,482,730	16,628,630	39,061,519	252,179,379	2.6%
2004	138,011,720	72,168,070	16,827,500	42,264,914	269,272,204	6.3%
2005	160,280,060	76,469,050	17,023,270	43,483,510	297,255,890	9.4%
2006	175,446,090	84,594,880	17,085,920	37,863,915	314,990,805	5.6%



**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

General Property Tax- (Real Estate) (Line 1.010)

General property tax revenue is the fastest growing assessed tax valuation and is impacted primarily by residential, commercial, and public utility real estate growth in the District. Projected valuation is expected to increase at a rate of 6% - 7% annually. The increase in real estate values is attributed primarily to new development and related new construction in the City of Monroe. These values have grown at an average rate of 9%.

Commercial Industrial real estate has started to taper off with very little growth, mainly due to the Enterprise Zone agreements with the City which allows reduction in real estate taxes as well as other tax incentives to bring business and industry to the community. The effective residential and agricultural rate is \$ 20.00 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$ 21.08 per \$1,000 of assessed valuation.

May 2007 Update: The rate of change for 2007 was 5.6%. Growth in Monroe has slowed during the previous year. In November 2006, voters passed a new 4.39 mill Emergency Levy that is expected generate \$1,190,000 for FY2008. This new levy will continue to generate operating revenue for five years.

Tangible Personal Property Tax (Line 1.020)

As part of the Tangible Personal Property Tax (TPP), reforms in HB 66 this tax will begin a four (4) year phase-out starting in tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment, and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent returns is not subject to the tax.

In February 2005 and May 2001 the District renewed emergency tax levies that are expected to generate \$1,500,000 and \$930,080 in annual tax revenues for the next four years or five years. The May 2001 levy was renewed in August 2006.

May 2007 Update: While Tangible Personal Property is being phased out, Monroe can expect a slight increase in FY07 due to the passage of the new levy.

Unrestricted Grants-in-Aid (Line 1.035)

HB 66 has also created changes in the manner that State Foundation revenue calculations are derived. Several of those changes impact the District's calculation of State Basic Aid. Revenue from State Foundation payments would normally be expected to continue to increase based on enrollment growth and increases to the State's basic per pupil funding formula. Monroe is experiencing a significant increase in student population but is no longer receiving transitional guarantee aid.

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

As previously discussed on the reductions of tangible personal property tax, during the hold harmless period, all taxing authorities will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions shown above.

May 2007 Update: Actual figures for FY07 are slightly lower than the original Forecast in October. The biennial budget for Ohio is still pending at this time for July 1, 2007. Current projections indicate a per-student growth of 3% for FY08 taking the per pupil amount from \$5,403 to \$5,565. Projections also include a 3% increase for FY09. However, the current biennial budget projections also include a list of district that will not receive additional state aid. Monroe is on this list. Total state aid will not increase for FY08 and will remain at \$3.5 million despite enrollment projections of an additional 8.2%. With the flat funding from the state, this puts Monroe back on a guarantee for next year for state aid.

Because the state has not yet released the new formulas that will be used to calculate state aid, it was necessary to use the current formula with adjustments to the ADM in order to show the flat-line funding for FY08 and the remainder of the Forecast.

Restricted Grants-in-Aid (Line 1.040)

This line item is designate for restricted state funding grants. Revenue from these grants is negligible and only accounted for \$1,400 in 2006-07.

Rollback and Homestead Taxes (Line 1.050)

State law grants tax relief in the form of a 10% reduction in Real Property Tax bills. In addition, a two and one half percent (2-1/2%) rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the school district for the loss of Real Property taxes due to Homestead and Rollback reductions. This line item includes Personal Property reimbursements.

All Other Revenues (Line 1.060)

Currently open enrollment has a significant impact on this revenue category. It constitutes 8% of the total revenues received by the District. The District's current enrollment is expected to grow at approximately 3-4% annually but the open enrolled students average around 180 – 200 students per year and are limited to Junior and Senior High School. The general maximum allowed is 250 pupils. The enrollment figures are projected to remain constant over the next (4) four years, but are subject to Board approval annually.

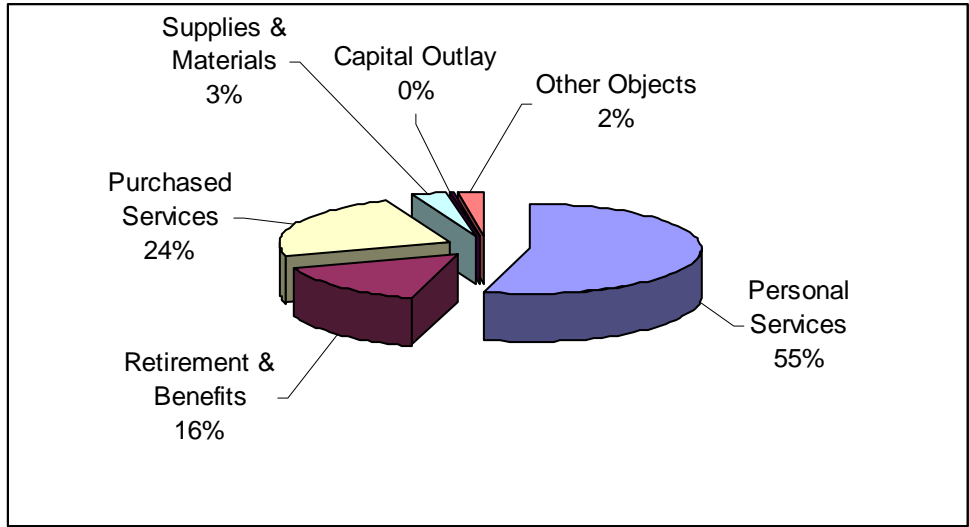
May 2007 Update: Open enrollment currently provides \$1.1 million annually for about 200 students. As open enrollment is phased out with increased Monroe enrollment, these funds will need to be replaced if Monroe is to continue the same level of academic programming.

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

Expenditures and Other Financing Uses

Significant sources of expenditures include personal services, employee retirement/insurance benefits, purchased services, supplies and materials, and capital outlay as shown in the following graph:



Personal Services (Line 3.010)

The amounts for salaries and benefits are based on the most recent negotiated agreement for all Monroe Education Association members. Anticipated increases in staff will attribute to a substantial increase in expenditures, due to the increases in student population growth. In addition to possible increases in the negotiated agreement, an overall increase of approximately 4% occurs as a result of the annual cost of living increases built into the salary schedule. The current contract expired June 30, 2006. The outcome is pending current year negotiations.

May 2007 Update: Negotiations have been completed and a contract is currently pending ratification by the Union. The negotiated agreement will provide for a 2.75% increase in both FY08 and FY09 for personal services. The three-year agreement will be retroactive to July 1, 2006, but will not include any increase in salary for FY07. October projections were based on a possible 4% increase and were slightly lower than the actual figures for FY07.

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

Employees' Retirement/Insurance Benefits (Line 3.020):

Employee benefits are typically driven by the amounts presented as salaries for the year and average approximately 18% to 21% percent of the payroll. The amounts for benefits are reflective of the activity in personal services because of retirement insurance and health insurance benefits. Health insurance has been and will continue to be consistent for the next two to three years (2-3) and the percentage increase for the 2007-2011 projected years is expected to increase approximately 8% to 10 % annually.

The District is currently a member of the Butler County Health Insurance Program (BCHP) (self-insurance consortium).

May 2007 Update: Employee retirement and benefits is projected to continue to increase approximately 10% each year of this forecast. Figures for FY07 and continuing are estimated to be higher than the original Forecast in October.

Purchased Services (Line 3.030)

Purchased services, supplies and materials, and capital outlay are expected to increase with inflation at a rate of 8-10% per year. One area driving cost in purchase services includes the District transportation expenditures. Transportation costs comprise 62% of the purchases services and continue to increase at a rate of 18% annually, due to student population growth. Additionally, the rising costs of fuel for the bus fleet, and district wide gas and electric costs also impact purchase services.

May 2007 Update: With the opening of the Monroe Primary School in the fall, additional utility and maintenance costs are to be expected for FY08. Figures for FY07 are about \$200,000 lower than the original Forecast in October due to cuts made at the beginning of the fiscal year.

Supplies and Materials (Line 3.040)

Because of the growth in student population this year, we will be required to make large purchases for books, computer technology, and other materials associated with the curriculum changes as well as student growth in fiscal year 2007. This area is expected to grow during the next couple of years but will taper off within the last few years of the projections.

May 2007 Update: This area is also expected to see some additional growth in FY08 to account for additional enrollment and the opening of the Monroe Primary School. Figures for FY07 are about \$280,000 lower than the original Forecast in October due to cuts made at the beginning of the fiscal year.

**MONROE LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007**

Capital Outlay (Line 3.050)

Purchases in capital outlay are necessary for current repair and maintenance of the current buildings. The only major increases will include new instructional and office equipment as it becomes necessary because equipment and outlay expenses were built into the project costs associated with adding the new building. There may also be some related building costs that will have to be set aside for the current building project but that cost will be minimal.

May 2007 Update: Capital Outlay will see a large growth in FY08 and FY09 as the Monroe Primary School is opened and additional grades are transferred to this building each year. Also in FY09, the cafeteria and media center will need to be brought online at Monroe Primary. Figures for FY07 are slightly lower than the original Forecast in October due to cuts made at the beginning of the fiscal year.

Reserve Assumptions (Line 9.030)

The District will set aside those amounts required by H.B. 412 as it becomes necessary and available.

May 2007 Update: The original Forecast in October did not include any reserve amounts. This forecast includes \$100,000 as a set aside amount for FY08 and \$200,000 for FY09. This set-aside will help offset additional costs associated with increased enrollment or reductions in the number of open enrollment students. While these amounts are logical given the current rebuilding of Monroe's financial state, these amounts will not be adequate should a levy fail to be renewed in the future.