



**Auditor of State
Betty Montgomery**

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

East Liverpool City School District
Columbiana County
500 Maryland Street
East Liverpool, OH 43920

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District, Columbiana County, Ohio, as of June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As described in Note 1 to the financial statements, the District has been declared to be in fiscal emergency under criteria established by Ohio Revised Code Chapter 118. This condition raises substantial doubt about the District's ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 24, 2005

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

As the treasurer and chief financial officer of the School District, it is with great pleasure that I present to you the financial status of East Liverpool City School District. The discussion and analysis in the following pages includes tables and graphic illustrations representing management's view of the overall School District financial performance in terms of its activities for the fiscal year ended June 30, 2004. The overall intent of this discussion and analysis is to look at the School District's financial performance as a whole and identify factors and events that may change that performance in future fiscal years. The reader is encouraged to review the basic financial statements and notes to the financial statements to enhance understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ The School District's total net assets decreased from \$53,220,787 to \$51,589,432 or \$1,631,355 during this year's operations. Net assets of governmental activities decreased 3.07 percent.
- ◆ Revenue from governmental activities totaled \$28,282,423 in 2004. This total was comprised of program revenues of \$6,669,705 and general revenues of \$21,612,718. Program revenues are grants, fees and donations. General (non-program) revenues are largely the State of Ohio foundation program and property taxes charged to resident and commercial taxpayers within the School District. Program revenues accounted for 23.6 percent of all revenues. General revenues accounted for 76.4 percent of all revenues.
- ◆ Program expenses totaled \$29,913,778. Instructional expenses accounted for 62.2 percent of all expenses while support services accounted for 31.1 percent of all expenses. Other expenses accounted for the remaining 6.7 percent of all expenses.
- ◆ The School District's outstanding debt decreased from \$10,506,941 to \$10,449,302 or \$57,639 (.6 percent) during this year's operations.

Using This Annual Report (AFR)

This annual report is comprised of a series of financial statements and notes pertaining to those statements. The statements and notes are organized in a manner to initially provide the reader an understanding of East Liverpool City School District as an operating entity. The statements and notes then proceed to provide an increasingly detailed review of specific financial activities.

The Statement of Net Assets and the Statement of Activities (on pages 16 and 17) provide an overall view of the activities of the School District for 2004. Fund financial statements that begin on page 18 provide the next level of detail. For governmental activities, these statements explain the manner in which services were financed in the short term as well as highlight fund balances that remain for future spending. Fund financial statements also report the School District's operations in greater detail than do the government-wide statements with the presentation of information with respect to the School District's most significant funds. In the case of the East Liverpool City School District, the general fund and classroom facilities fund are the most significant funds. The remaining statements provide financial information about activities for which the School District acts solely as an agent or trustee for the benefit of those outside the governmental entity.

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Reporting the School District as a Whole (government-wide)

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the questions, "How did we perform fiscally during 2004?" This is one of the most important issues when analyzing any financial enterprise. The *Statement of Net Assets* and the *Statement of Activities* answer this question. These are the only reports that display government-wide finances. Within these statements is shown the School District divided into two distinct activities:

- ◆ Governmental Activities – Operations in which Property Taxes, State and Federal Grants and fees finance School District activities primarily of an instructional and support service nature.
- ◆ Business - Type Activities – Operations in which a fee(s) is established to offset the cost of a specific program (s). The School District does not have any business type activities.

The Statement of Net Assets details all assets and liabilities of the School District. Net assets are the difference between assets and liabilities and are a lead indicator of financial health.

The Statement of Activities details Program Revenues and Expenses of the School District. Changes that occurred in net assets over the course of the year are also detailed, an indicator of improvement or deterioration in financial position.

Each of the above statements use the accrual basis of accounting, a method used by most private sector business entities. The most important aspects of accrual basis accounting are that assets and liabilities as well as revenue and expenses are recorded when earned or incurred rather than when received or disbursed.

Many factors, financial and non-financial, have the potential to impact School District financial status. Financial factors may include changes in property tax values, new or renewal tax levies and State funding issues. Non-financial factors may include demographic and socioeconomic characteristics as well as the willingness of the community to financially support the School District. Such factors should be examined prior to reaching a conclusion about our School District's financial status.

Reporting the School District's Most Significant Funds (fund financials)

The analysis of the School District's major funds begins on page 11. Fund financial statements provided detailed information about each significant fund in contrast to the previously described government-wide reporting. Most funds are required to be established by State law. The School District's major governmental funds are the General fund and the Classroom Facilities capital projects fund.

Governmental Funds - Most of the School District's funds are reported as governmental funds, with report focus on how resources flows into and out of those funds and balances remaining at year-end available for spending in future periods. The modified accrual basis is employed which measures cash and all other financial assets readily convertible into cash. The fund financial statements offer a detailed short-term view of the School District's general government operations and the basic services provided. There are differences between governmental funds (as reported in this section) and governmental

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activities as reported in the Statement of Net Assets and the Statement of Activities. Differences are reconciled in the financial statements.

Fiduciary Funds - The School District is the trustee, or fiduciary, for various scholarship programs presented as a private purpose trust fund. The School District also acts as an agent for individuals, private organizations and/or other governmental units for activities presented as agency funds. Fiduciary funds are reported upon statements distinct from governmental funds in recognition that net assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

The Statement of Net Assets provides a perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets for 2004 versus 2003:

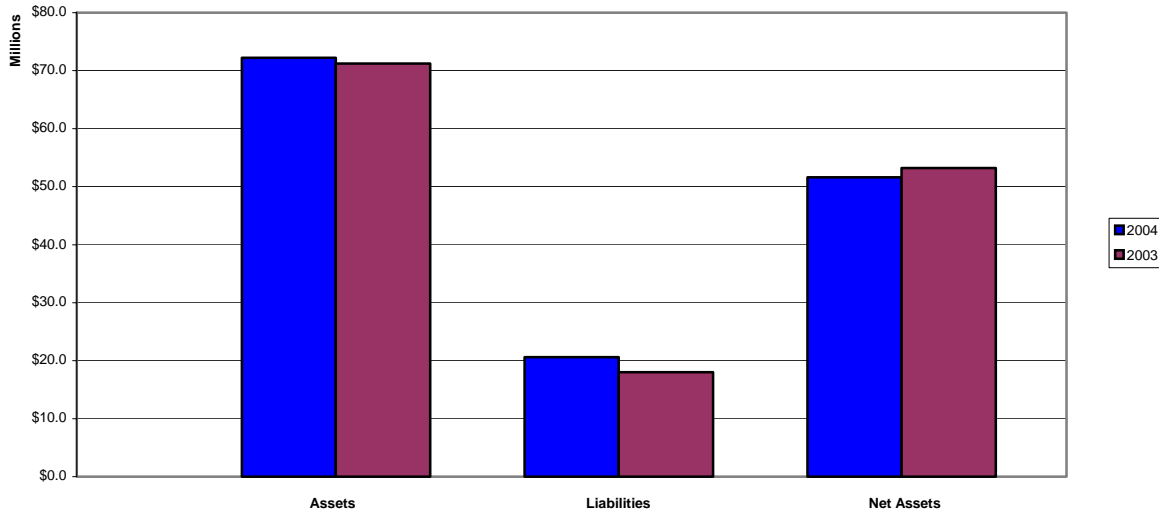
Table 1
 Net Assets
 Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$68,007,207	\$67,145,113
Capital Assets, Net	4,191,692	4,082,950
Total Assets	72,198,899	71,228,063
Liabilities		
Current Liabilities	10,160,165	7,500,335
Long-Term Liabilities		
Due Within One Year	613,007	426,722
Due in More Than One Year	9,836,295	10,080,219
Total Liabilities	20,609,467	18,007,276
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,598,411	3,696,189
Restricted for:		
Capital Projects	52,034,737	52,367,863
Debt Service	463,960	192,361
Set Asides	494,987	0
Other Purposes	182,415	830,360
Unrestricted (Deficit)	(5,185,078)	(3,865,986)
Total Net Assets	\$51,589,432	\$53,220,787

The School District's total net assets decreased \$1,631,355 from the prior year which was due in large to a \$1,814,496 increase in instructional expenditures.

East Liverpool City School District
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Governmental Activities (in Millions)



A portion of the School District's net assets, \$1,141,362 represents resources that are subject to external restrictions as to use. Additionally, \$52,034,737 in resources received from the State are restricted for construction. A negative unrestricted net assets balance of \$5,185,078, is insufficient to provide for the School District's ongoing obligations to the students and creditors.

Net capital assets represented 5.8 percent of total assets and increased \$108,742 from the previous year. On a gross basis, Capital Assets increased \$779,567 over the previous year largely due to an increase in construction in progress of \$633,296. Current year depreciation expense of \$670,825 offsets the additions to capital assets. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$3,598,411. This portion of net assets is used primarily to provide services to students and is not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since liquidation of capital assets is not contemplated to repay the debt.

Table 2 utilizes the full accrual method of accounting to highlight the School District's revenues and expenses. The two main components are netted to indicate the change in net assets for the year.

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Expenses are shown in easily identifiable programs that make use of the Uniform School Accounting System (USAS) coding structure. A comparative analysis of 2004 and 2003 follows:

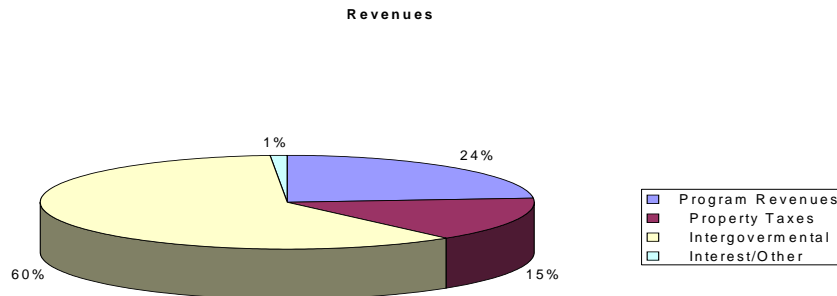
Table 2
 Change in Net Assets
 Governmental Activities

	2004	2003
Revenues		
Program Revenues		
Charges for Services	\$1,474,688	\$796,626
Operating Grants, Contributions and Interest	5,098,841	4,784,493
Capital Grants and Contributions	96,176	0
Total Program Revenues	<u>6,669,705</u>	<u>5,581,119</u>
General Revenues		
Property Taxes	4,342,811	4,515,913
Grants and Entitlements	16,974,353	67,814,174
Investment Earnings	193,136	194,918
Miscellaneous	102,418	119,790
Total General Revenues	<u>21,612,718</u>	<u>72,644,795</u>
<i>Total Revenues</i>	<u>\$28,282,423</u>	<u>\$78,225,914</u>
Program Expenses		
Instruction:		
Regular	\$13,286,199	\$11,087,789
Special	4,057,167	4,298,027
Vocational	1,199,709	1,353,421
Adult/Continuing	82,151	71,493
Support Services:		
Pupils	1,459,173	1,473,144
Instructional Staff	1,029,121	1,166,381
Board of Education	461,885	141,165
Administration	1,968,053	2,153,584
Fiscal	488,531	588,001
Business	444,286	123,727
Operation and Maintenance of Plant	2,560,238	2,657,364
Pupil Transportation	867,454	944,152
Central	18,933	3,884
Extracurricular Activities	497,497	532,609
Operation of Non-Instructional Services:		
Food Service Operations	1,163,268	1,032,178
Other Non-Instructional Services	169,756	123,012
Interest and Fiscal Charges	<u>160,357</u>	<u>208,954</u>
<i>Total Program Expenses</i>	<u>29,913,778</u>	<u>27,958,885</u>
<i>Increase (Decrease) in Net Assets</i>	(1,631,355)	50,267,029
Net Assets Beginning of Year	<u>53,220,787</u>	<u>2,953,758</u>
Net Assets End of Year	<u>\$51,589,432</u>	<u>\$53,220,787</u>

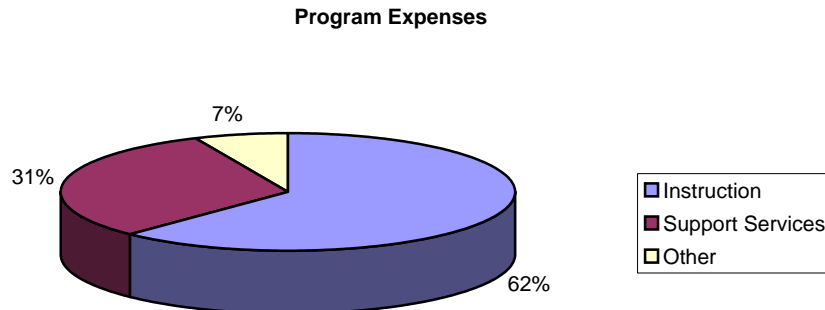
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Table 2 depicts the breakdown of both the School District's revenue sources and the types of services provided. Services provided in excess of revenues provided resulted in an increase to net assets of \$1,631,355 in 2004. Charges for services in the program revenues showed an increase of \$678,062 which was largely due to an increase of tuition and fees in the general fund. Grants and entitlements in the general revenues showed a decrease of \$50,839,821 which was due largely to the School District recognizing revenue from an Ohio school facilities grant in the amount of \$51,007,054 in fiscal year 2003. Regular instruction program expenses showed an increase of \$2,198,410 which was largely due to an increase in salaries and fringe benefits.

As depicted in the chart below, General Revenues (largely property taxes and intergovernmental grants and entitlements) equate to approximately 76 percent of total revenue and program revenue (largely charges for services and operating grants) equate to approximately 24 percent of total revenue.



Instruction comprises approximately 62 percent of Program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 31 percent. The remaining 7 percent of Program expenses meet other obligations of the School District such as for non-instructional services, food service operations, extracurricular activities and interest and fiscal charges.



The Governmental Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 Total and Net Costs of Program Services—Governmental Activities details the total cost related to the programs and the net cost of services depicts

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program costs that must be covered by unrestricted State aid (State Foundation) or local taxes. A comparative analysis of 2004 and 2003 follows:

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program Expenses				
Instruction:				
Regular	\$13,286,199	(\$11,855,080)	\$11,087,789	(\$9,825,773)
Special	4,057,167	(2,624,310)	4,298,027	(2,553,998)
Vocational	1,199,709	(881,289)	1,353,421	(1,108,742)
Adult/Continuing	82,151	(20,347)	71,493	(25,174)
Support Services:				
Pupils	1,459,173	(874,463)	1,473,144	(1,372,286)
Instructional Staff	1,029,121	(266,030)	1,166,381	(677,207)
Board of Education	461,885	(455,881)	141,165	(141,062)
Administration	1,968,053	(1,571,416)	2,153,584	(1,774,902)
Fiscal	488,531	(402,462)	588,001	(574,915)
Business	444,286	(422,882)	123,727	(123,727)
Operation and Maintenance of Plant	2,560,238	(2,437,664)	2,657,364	(2,657,364)
Pupil Transportation	867,454	(773,731)	944,152	(940,130)
Central	18,933	(469)	3,884	0
Extracurricular Activities	497,497	(295,521)	532,609	(326,652)
Operation of Non-Instructional Services:				
Food Service Operations	1,163,268	(170,510)	1,032,178	(119,515)
Other Non-Instructional Services	169,756	(31,661)	123,012	52,635
Interest and Fiscal Charges	160,357	(160,357)	208,954	(208,954)
<i>Total</i>	<u>\$29,913,778</u>	<u>(\$23,244,073)</u>	<u>\$27,958,885</u>	<u>(\$22,377,766)</u>

The dependence upon taxes and in particular grants and entitlements for governmental activities is apparent. Ohio law requires County Auditors to reappraise all real property every six years. In Columbiana County the last reappraisal was completed in 2004 and the last triennial update in 2001. As a result of the latest update by Columbiana County in 2001, the School District's tax valuation decreased by 1.7 percent that year. The County completed a re-appraisal of property values in 2004 and should realize a gain in valuation of 4.7 percent for 2005. Slow economic growth in the area have resulted in business closings, property abandonment, demolition, and valuation appeals from existing property owners seeking to reduce their taxes usually by claiming market value decreases resulting from area economic factors. Local economic conditions have been the major reason that the School District has not sought additional operating millage since the passage of and two subsequent renewals of an emergency levy in 2000.

A State law, enacted in 1976, does not allow for revenue increases caused by inflationary growth in the value of real property. Increases in valuation prompt corresponding annual reductions in the "effective

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millage,” the tax rate applied to real property. The following table illustrates the low rate of growth in property values which has negatively impacted the School District:

Property Tax Growth-Last Nine Years

Calendar Year	Total Valuation	Growth Rate
2004	\$168,679,280	3.45 %
2003	\$163,052,530	(0.02) %
2002	\$163,081,440	6.16 %
2001	\$153,622,820	(0.31) %
2000	\$154,095,740	(1.73) %
1999	\$156,808,190	12.60 %
1998	\$139,265,820	2.61 %
1997	\$135,718,130	(11.97) %
1996	\$154,175,380	

The average rate of growth over the last nine years is less than 1.4 percent. Because of the School District's low valuation (calendar year 2002 average valuation per pupil was 591 in a ranking of 612 school districts in the State of Ohio), it is highly dependent on State funding to maintain financial stability.

The School District's Funds

Information about the School District's major funds starts on page 18. As previously stated, these funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,148,866 and expenditures of \$30,468,754. The net change in overall fund balance for the year was \$65,512 largely accounted for by a decrease in net fund balances in the general fund of \$1,078,039 and an increase in the classroom facilities fund balance of \$1,116,286.

The general fund net fund balance decrease was due largely to instructional expenditures that increased \$2,118,571.

The classroom facilities fund net fund balance increase was largely due to an increase in intergovernmental revenues over the prior year.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the General Fund.

During the course of 2004, the School District amended its general fund budget on several occasions. The final budget basis revenue estimate was \$22,136,817 representing an increase of \$109,679 from the original budget estimate of \$22,027,138 largely due to a conservative original estimate of State

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foundation distributions based upon pupil enrollment estimates. Original general fund receipt estimates were within less than one percent of actual revenue.

The School District revises its budget throughout the year. The final budget basis expenditure estimate was \$23,745,335 representing a decrease of \$850,902 from the original budget estimate of \$24,596,237 largely due to a less conservative estimate of expenditures generally in all categories. Original general fund expenditure estimates were within six percent of actual expenditures.

The School District's general fund balance at fiscal year-end was \$1,276,799 reflecting available funds not expended or encumbered.

The State of Ohio requires each school district to submit an annual five-year financial forecast on or before October 31 of each year and an updated forecast between April 1 and May 31 of each year regardless of the variance in estimate versus actual activity. This process serves to further strengthen budgeting accuracy.

The School District adheres to the mandates of House Bill 412 and Senate Bill 345 requiring the setting aside of three percent of certain general fund revenues for the purchase of textbook and instructional materials and for capital improvements.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004, the School District had \$4,191,692 invested in land and improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Table 4 shows fiscal 2004 values compared to 2003:

Table 4
 Capital Assets at June 30
 Governmental Activities

	2004	2003
Land	\$398,820	\$398,820
Construction In Progress	633,296	0
Land Improvements	284,701	308,440
Buildings and Improvements	1,047,641	1,263,493
Furniture and Equipment	1,356,269	1,672,870
Vehicles	470,965	439,327
Total Capital Assets	\$4,191,692	\$4,082,950

All capital assets, except land and construction in progress, are reported net of depreciation. As one can see, the main changes in capital assets during the fiscal year occurred in construction in progress, building and improvements and furniture and fixtures. Increases in capital assets were \$739,108 less current year depreciation expense of \$670,825 or a net increase of \$68,283. The above table reflects the advent of

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continued increases in construction in progress resulting from the school facilities project. Please refer to Note 11 within the notes to the basic financial statements for further information on capital assets.

Debt

At June 30, 2004, the School District reduced its overall outstanding obligations by \$57,639 resulting from an increase in capital leases offset by decreases in school improvement and energy conservation debt outstanding.

The School District issued \$7,900,000 in school facilities construction improvement bonds on March 12, 2003 pursuant to a vote of the electors of the School District cast at an election on May 7, 2002. Pursuant to the Ohio Revised Code Chapter 133, the School District made the first mandatory payment of \$200,000 into a sinking fund instituted to provide for payment of principal of the bonds at maturity. Thereafter, annual payments of \$408,993 are made for fourteen additional years until maturity at March 11, 2018. The bank escrow agent invests sinking fund deposits with interest earnings bridging the difference between obligation at maturity and the sinking fund balance. The bonds are backed by the full faith and credit of the School District.

As of June 30, 2004, the School District's overall legal debt margin was \$6,566,800 with an unvoted debt margin of \$163,053. Capital leases do not factor into the calculation of the School District's legal debt margin. Neither Moody's nor Standard and Poor's maintain an active rating on the East Liverpool City School District.

Please refer to Note 17 within the notes to the basic financial statements for further information on debt.

School District Outlook

The goal of the East Liverpool City School District continues to be to maintain the highest standards of service to our students, parents and community. In keeping with its mission statement the Board of Education has adopted a Comprehensive Continuous School Improvement Plan through which the School District intends to satisfy the rigorous requirements of the No Child Left Behind Act of 2001. Through implementation of such processes as Classwell Learning Systems (educational piece) and Capturing Kid's Hearts (character development program), the School District continues to bring about improvements that have resulted in achieving a Department of Education school district designation of continuous improvement from a late 1990's designation of academic emergency. The goal remains to narrow the gap between the highest and lowest achieving students leading to total academic success.

The mission of the East Liverpool City School District is to ensure that all student of the community reach their fullest potential by using the best physical and human resources in partnership with family and community. In order to meet the goals and mission stated above, it is imperative that the School District's management and staff continue to carefully and prudently plan in order to provide the resources and education required to meet student needs during the upcoming years.

The School District is always presented with challenges and opportunities. National recessionary trends have impacted the local economy and by extension the School District negatively continuing a several decade long trend of decline in what were once primary industries. Additionally, there is little growth of new or additional industry in the immediate and county-wide area.

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The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must increasingly rely on local property taxes to fund its operations as State sourced revenue provides little if any growth in the foreseeable future. At the same time, the School District does not foresee any sustainable growth in revenue from property taxes due to slow economic growth. Management must diligently adjust planned expenses to fit within projected revenues in order to make improvements in its five-year forecast.

Externally, the School District is largely dependent on State funding sources (in excess of 70 percent of the School District's operating funds are projected to result from State foundation revenue, homestead and rollback reimbursement and other entitlements in 2005). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. The School District has seen a trending decline in student enrollment in recent years and, while the revenue growth in State funding has shifted toward school districts with low property tax wealth, local declining enrollment has served to offset any overall meaningful increase in State funding. With the budgetary difficulties being experienced by the State, East Liverpool City School District does not anticipate any meaningful growth in State revenue during the forecast period.

The School District was placed under fiscal caution by the Department of Education in April 2003, fiscal watch on September 29, 2003 and then fiscal emergency on December 18, 2003. In response to a projected deficit of \$2.6 million, a state solvency assistance loan was approved and funds were received prior to June 30, 2004 to eliminate the deficit.

The necessity of repaying the solvency assistance loan over a two year time period beginning in 2005 required the development of a deficit reduction plan that would preserve the foundation of the School District's curricular, co-curricular, and extra-curricular programs while at the same time reduce expenditures in light of declining enrollment. The impact of the plan in place is mirrored by the fact that since 2004, fifty-eight teaching, support staff and administrative positions have been eliminated.

Although the School District had hoped that modest increases in State per-pupil funding contained in the 2004 and 2005 biennial budget would help buy the School District a little time before it faced the prospect of additional budget reductions, much of the positive impact of the higher per-pupil funding amounts have been offset by other negative financial factors that occurred this past year (decreasing enrollment resulting from open enrollment and on line schools, lower interest earnings resulting from declining cash balances and increasing insurance costs). In the long run, the fact is that as long as the State avoids the complete systematic overhaul in school funding ordered by the Supreme Court in a ruling almost ten years ago, all schools in Ohio will be faced with ever increasing reliance upon tax revenues generated from the local taxpayer or, in the absence of those revenues, decreasing expenditures through budgetary adjustments.

As the School District moved towards the 2005 school year, it remains clear that the School District is at a financial and operational crossroad. Financially, with in excess of 80 percent of the School District's budget driven by personnel and benefit costs, spending reductions needed for the long term financial health of the School District cannot be made without ultimately affecting staffing levels. The School District's recovery plan is based upon a mix of those spending cuts, an additional solvency assistance loan and additional local revenue. Success in achieving the plan is projected to require a multi-year approach.

Operationally, the School District maintains five educational facilities (three elementary buildings, one joint elementary and middle school, and one high school) as well as an administration building). Each of those educational facilities were constructed in excess of thirty years ago and remain in need of

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

renovation and in several cases increased classroom space to meet the needs of current instructional methods. At the same time, financial pressures resulting from declining enrollment suggest a reduction in the number of building in operation to generate operational savings. Recognition must be given however that the closing of any school facility is never easy and often alienates a segment of the community.

With approval by voters of a 3.2 mill bond issue in May 2002, the School District and the Ohio School Facility Commission entered into an agreement in March 2003 for facilities renovations, additions, and improvements to existing buildings. Under the agreement, the State was to have provided \$51,982,022 or 87.0 percent of total project funding and the School District was to have provided \$7,769,000 or 13.0 percent of total project funding sourced from proceeds of the above mentioned bond issue.

While this funding will not directly reduce operating costs, savings can be achieved by expanding the capacity of certain buildings and closure of a facility. In addition, a modest maintenance levy, approved by the voters along with the facilities issue, offers the potential of helping to maintain School District buildings and provide needed technology. The facilities program offers its residents better educational opportunities for its youth and represents a positive development in the community.

As of the development of this analysis, legal challenges to the facilities program that center primarily upon enrollment projections that would influence the magnitude of the project have to date delayed the project from moving forward. It is hoped that legal issues can be successfully answered so as to allow construction and renovation to begin as the 2007 school year unfolds.

Contacting the School District's Financial Management

The financial report and discussion is designed to provide our students, residents, taxpayers, investors and creditors with a complete disclosure of the School District's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. Should you have any question about this report or desire additional financial information, please write Daniel J. Telzrow, Treasurer/CFO at East Liverpool City School District, 500 Maryland Avenue, East Liverpool, Ohio 43920 or telephone (330) 385-7132 or email east_dt@access-k12.org.

East Liverpool City School District

Statement of Net Assets

June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$13,113,105
Accounts Receivable	321
Accrued Interest Receivable	268
Intergovernmental Receivable	49,838,747
Inventory Held for Resale	26,957
Materials and Supplies Inventory	4,133
Prepaid Items	40,519
Taxes Receivable	4,904,422
Deferred Charges	78,735
Nondepreciable Capital Assets	1,032,116
Depreciable Capital Assets, Net	3,159,576
<i>Total Assets</i>	<u>72,198,899</u>
Liabilities	
Accounts Payable	198,600
Accrued Wages and Benefits	2,089,375
Deferred Revenue	4,332,735
Intergovernmental Payable	730,618
Matured Compensated Absences Payable	117,837
Matured Special Termination Benefits Payable	85,000
State Operating Loan Payable	2,606,000
Long-Term Liabilities:	
Due Within One Year	613,007
Due In More Than One Year	9,836,295
<i>Total Liabilities</i>	<u>20,609,467</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,598,411
Restricted for:	
Capital Projects	52,034,737
Debt Service	463,960
Set Asides	494,987
Other Purposes	182,415
Unrestricted (Deficit)	(5,185,078)
<i>Total Net Assets</i>	<u><u>\$51,589,432</u></u>

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$13,286,199	\$582,020	\$849,099	\$0	(\$11,855,080)
Special	4,057,167	119,579	1,313,278	0	(2,624,310)
Vocational	1,199,709	48,073	270,347	0	(881,289)
Adult/Continuing	82,151	669	61,135	0	(20,347)
Support Services:					
Pupils	1,459,173	42,565	542,145	0	(874,463)
Instructional Staff	1,029,121	36,156	657,635	69,300	(266,030)
Board of Education	461,885	6,004	0	0	(455,881)
Administration	1,968,053	93,261	303,376	0	(1,571,416)
Fiscal	488,531	21,458	64,611	0	(402,462)
Business	444,286	21,404	0	0	(422,882)
Operation and Maintenance of Plant	2,560,238	115,573	7,001	0	(2,437,664)
Pupil Transportation	867,454	42,432	24,415	26,876	(773,731)
Central	18,933	0	18,464	0	(469)
Extracurricular Activities	497,497	193,876	8,100	0	(295,521)
Operation of Non-Instructional Services:					
Food Service Operations	1,163,268	151,488	841,270	0	(170,510)
Other Non-Instructional Services	169,756	130	137,965	0	(31,661)
Interest and Fiscal Charges	160,357	0	0	0	(160,357)
<i>Total Governmental Activities</i>	<u>\$29,913,778</u>	<u>\$1,474,688</u>	<u>\$5,098,841</u>	<u>\$96,176</u>	<u>(\$23,244,073)</u>
General Revenues					
Property Taxes Levied for:					
					3,835,824
					14,044
					428,771
					64,172
					16,974,353
					193,136
					102,418
					<u>21,612,718</u>
					(1,631,355)
					<u>53,220,787</u>
					<u>\$51,589,432</u>

See accompanying notes to the basic financial statements

East Liverpool City School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$916,811	\$9,886,397	\$1,814,910	\$12,618,118
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	494,987	0	0	494,987
Receivables:				
Taxes Receivable	4,347,726	0	556,696	4,904,422
Accounts	0	0	321	321
Accrued Interest	268	0	0	268
Intergovernmental	179,719	49,477,054	181,974	49,838,747
Prepaid Items	40,519	0	0	40,519
Interfund Receivable	100,670	0	0	100,670
Inventory Held for Resale	0	0	26,957	26,957
Materials and Supplies Inventory	0	0	4,133	4,133
<i>Total Assets</i>	<u>\$6,080,700</u>	<u>\$59,363,451</u>	<u>\$2,584,991</u>	<u>\$68,029,142</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$81,897	\$0	\$116,703	\$198,600
Accrued Wages and Benefits	1,691,160	0	398,215	2,089,375
Interfund Payable	0	0	100,670	100,670
Intergovernmental Payable	433,280	0	65,611	498,891
Deferred Revenue	4,151,152	49,477,054	612,212	54,240,418
Matured Compensated Absences Payable	109,732	0	8,105	117,837
Matured Special Termination Benefits Payable	85,000	0	0	85,000
State Operating Loan Payable	2,606,000	0	0	2,606,000
<i>Total Liabilities</i>	<u>9,158,221</u>	<u>49,477,054</u>	<u>1,301,516</u>	<u>59,936,791</u>
Fund Balances				
Reserved for Encumbrances	38,811	136,538	252,740	428,089
Reserved for Budget Stabilization	135,706	0	0	135,706
Reserved for Capital Improvements	56,599	0	0	56,599
Reserved for Textbooks	302,682	0	0	302,682
Reserved for Property Taxes	196,574	0	23,948	220,522
Unreserved:				
Undesignated, (Deficit) Reported in:				
General Fund	(3,807,893)	0	0	(3,807,893)
Special Revenue Funds	0	0	336,448	336,448
Debt Service Fund	0	0	408,228	408,228
Capital Projects Funds	0	9,749,859	262,111	10,011,970
<i>Total Fund (Deficit) Balances</i>	<u>(3,077,521)</u>	<u>9,886,397</u>	<u>1,283,475</u>	<u>8,092,351</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,080,700</u>	<u>\$59,363,451</u>	<u>\$2,584,991</u>	<u>\$68,029,142</u>

See accompanying notes to the basic financial statements

East Liverpool City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances \$8,092,351

*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds 4,191,692

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	351,165
School Facilities Monies	49,477,054
Grants	79,464

Total 49,907,683

In the statement of activities, bond issuance cost are amortized
 over the term of the bonds, whereas in governmental funds
 a bond issuance expenditure is reported when bonds are issued. 78,735

Due to other governments includes contractually required pension
 contributions not expected to be paid with expendable available
 financial resources and therefore not reported in the funds. (231,727)

Long-term liabilities, including bonds payable, compensated
 absences and capital leases payable, are not due and payable in
 the current period and therefore are not reported in the funds:

School Improvement Bonds	(7,700,000)
Energy Conservation Loan	(313,235)
Capital Leases	(314,825)
Compensated Absences	(2,121,242)

Total (10,449,302)

Net Assets of Governmental Activities \$51,589,432

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$4,062,952	\$0	\$561,557	\$4,624,509
Intergovernmental	16,918,473	1,530,000	5,293,381	23,741,854
Interest	12,230	178,898	2,008	193,136
Tuition and Fees	1,124,554	0	36	1,124,590
Extracurricular Activities	0	0	193,446	193,446
Charges for Services	0	0	151,488	151,488
Rentals	5,164	0	0	5,164
Contributions and Donations	570	0	11,691	12,261
Miscellaneous	22,593	0	79,825	102,418
<i>Total Revenues</i>	<u>22,146,536</u>	<u>1,708,898</u>	<u>6,293,432</u>	<u>30,148,866</u>
Expenditures				
Current:				
Instruction:				
Regular	12,080,297	0	878,424	12,958,721
Special	2,496,013	0	1,470,070	3,966,083
Vocational	1,003,114	0	161,035	1,164,149
Adult/Continuing	26,282	0	56,473	82,755
Support Services:				
Pupils	890,997	0	566,775	1,457,772
Instructional Staff	745,873	0	270,667	1,016,540
Board of Education	124,173	0	325,138	449,311
Administration	1,578,401	0	399,421	1,977,822
Fiscal	449,829	0	32,530	482,359
Business	443,628	0	0	443,628
Operation and Maintenance of Plant	2,408,166	0	11,989	2,420,155
Pupil Transportation	873,120	0	27,557	900,677
Central	0	0	18,933	18,933
Extracurricular Activities	265,892	0	183,501	449,393
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,167,327	1,167,327
Other Non-Instructional Services	2,522	0	166,820	169,342
Capital Outlay	0	592,612	167,982	760,594
Debt Service:				
Principal Retirement	142,295	0	286,598	428,893
Interest and Fiscal Charges	0	0	154,300	154,300
<i>Total Expenditures</i>	<u>23,530,602</u>	<u>592,612</u>	<u>6,345,540</u>	<u>30,468,754</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,384,066)</u>	<u>1,116,286</u>	<u>(52,108)</u>	<u>(319,888)</u>
Other Financing Sources (Uses)				
Inception of Capital Lease	385,400	0	0	385,400
Transfers In	25,250	0	104,623	129,873
Transfers Out	(104,623)	0	(25,250)	(129,873)
<i>Total Other Financing Sources (Uses)</i>	<u>306,027</u>	<u>0</u>	<u>79,373</u>	<u>385,400</u>
<i>Net Change in Fund Balances</i>	(1,078,039)	1,116,286	27,265	65,512
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(1,999,482)</u>	<u>8,770,111</u>	<u>1,256,210</u>	<u>8,026,839</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$3,077,521)</u>	<u>\$9,886,397</u>	<u>\$1,283,475</u>	<u>\$8,092,351</u>

See accompanying notes to the basic financial statements

East Liverpool City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$65,512

Amounts reported for governmental activities in the

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions	779,567	
Current Year Depreciation	(670,825)	
Total		108,742

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	(281,698)	
School Facilities Monies	(1,530,000)	
Grants	(54,745)	
Total		(1,866,443)

Bond issuance costs are reported as an expenditure in the governmental funds but are allocated as an expense over the life of the bonds on a full accrual basis. (6,057)

Repayment of long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Energy Conservation Loan	86,598	
School Improvement Bonds	200,000	
Capital Leases Payable	142,295	
Total		428,893

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	14,146	
Pension Obligation	9,252	
Total		23,398

Receipt of the inception of a capital lease is a revenue in the governmental funds, but the inception of a capital lease increases long-term liabilities in the statement of net assets. (385,400)

Change in Net Assets of Governmental Activities (\$1,631,355)

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$4,551,144	\$4,585,261	\$4,021,721	(\$563,540)
Intergovernmental	15,205,509	16,420,546	16,902,473	481,927
Interest	14,413	17,630	15,606	(2,024)
Tuition and Fees	888,123	1,086,360	961,665	(124,695)
Rentals	4,769	5,833	5,164	(669)
Contributions and Donations	526	644	570	(74)
Miscellaneous	20,865	25,522	22,593	(2,929)
<i>Total Revenues</i>	<u>20,685,349</u>	<u>22,141,796</u>	<u>21,929,792</u>	<u>(212,004)</u>
Expenditures				
Current:				
Instruction:				
Regular	12,650,768	12,208,481	11,942,603	265,878
Special	2,682,156	2,588,384	2,532,014	56,370
Vocational	1,070,869	1,033,430	1,010,924	22,506
Adult/Continuing	8,004	7,724	7,556	168
Support Services:				
Pupils	961,180	927,576	907,375	20,201
Instructional Staff	743,341	717,353	701,730	15,623
Board of Education	131,097	126,513	123,758	2,755
Administration	1,676,571	1,617,956	1,582,720	35,236
Fiscal	487,134	470,103	459,865	10,238
Business	214,174	206,686	202,185	4,501
Operation and Maintenance of Plant	2,626,655	2,381,684	2,479,620	(97,936)
Pupil Transportation	948,774	915,604	895,664	19,940
Extracurricular Activities	281,753	271,903	265,981	5,922
Operation of Non-Instructional Services	2,671	2,578	2,522	56
<i>Total Expenditures</i>	<u>24,485,147</u>	<u>23,475,975</u>	<u>23,114,517</u>	<u>361,458</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,799,798)</u>	<u>(1,334,179)</u>	<u>(1,184,725)</u>	<u>149,454</u>
Other Financing Sources (Uses)				
Proceeds of State Solvency Assistance Loan	0	2,606,000	2,606,000	2,606,000
Advances In	0	5,093	5,093	0
Advances Out	0	(48,517)	(48,517)	0
Transfers In	0	25,250	25,250	0
Transfers Out	0	(104,623)	(104,623)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>2,483,203</u>	<u>2,483,203</u>	<u>2,606,000</u>
<i>Net Change in Fund Balance</i>	<u>(3,799,798)</u>	<u>1,149,024</u>	<u>1,298,478</u>	<u>149,454</u>
<i>Fund Deficit Beginning of Year</i>	<u>(292,140)</u>	<u>(292,140)</u>	<u>(292,140)</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>270,461</u>	<u>270,461</u>	<u>270,461</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u><u>(\$3,821,477)</u></u>	<u><u>\$1,127,345</u></u>	<u><u>\$1,276,799</u></u>	<u><u>\$149,454</u></u>

See accompanying notes to the basic financial statements.

East Liverpool City School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	
	Endowment	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$18,894	<u>\$70,562</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$70,562</u>
Net Assets		
Held in Trust for Scholarships	<u>\$18,894</u>	

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2004

	<u>Endowment</u>
Additions	
Interest	\$225
Contributions and Donations	<u>1,795</u>
<i>Total Additions</i>	2,020
Deductions	
Scholarships	<u>200</u>
<i>Change in Net Assets</i>	1,820
<i>Net Assets Beginning of Year</i>	<u>17,074</u>
<i>Net Assets End of Year</i>	<u><u>\$18,894</u></u>

See accompanying notes to the basic financial statements

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East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

East Liverpool City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The School District operates under a locally-elected five member Board and provides educational services as mandated by State and Federal agencies. It is staffed by 125 non-certificated employees, 244 certified full-time teaching personnel and 26 administrative employees who provide services to 2,988 students and other community members. The School District currently operates five instructional buildings, one administrative building and one bus garage.

The School District was established in 1864 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 10 square miles. It is located in Columbiana County and includes all of the City of East Liverpool, all of Liverpool Township and a portion of Saint Clair Township.

On December 18, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under section 3316.03B(5), Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of East Liverpool. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For East Liverpool City School District, this includes the agencies and departments that provide the following services: general operations, food service, preschool, childcare and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The following activities are included within the reporting entity:

Non-Public Schools Within the School District boundaries, St. Aloysius Catholic School is operated through the Catholic Diocese of Youngstown and East Liverpool Christian School is

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

operated as a private school. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

The School District participates in the Area Cooperative Computer Educational Service System which is defined as a jointly governed organization. This organization is presented in Note 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The general fund and the classroom facilities capital projects fund are the School District's major governmental funds:

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Classroom Facilities Capital Projects Fund The classroom facilities capital projects fund accounts for the proceeds of notes and bonds as well as grants for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Fund Types Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private-purpose trust fund accounts for endowments for student college scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The general fund made an advance to the goals 2000 special revenue fund to eliminate the fund's negative cash balance. The goals 2000 special revenue fund has an interfund payable for the amount of the advance received from the general fund which has an interfund receivable for the same amount on the balance sheet.

During 2004, investments were limited to STAROhio, repurchase agreements, federal home loan bank consolidated bonds and federal home loan mortgage association notes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$12,230, which includes \$6,122 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consists of donated and purchased food held for resale and materials and supplies held for consumption.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by State statute to be

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

set aside for capital improvements and the purchase of textbooks and to create a reserve for budget stabilization - See Note 20 for additional information regarding set-asides.

I. Deferred Charges

On the governmental fund statements, bond issuance cost are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred charges and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method.

J. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and construction in progress, is depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	20 - 40 years
Furniture and Equipment	10 years
Vehicles	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payment come due each period upon the occurrence of the employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, budget stabilization, capital improvements, textbooks and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include instructional operations, food service operations and extracurricular activities.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

S. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund and function level for the final appropriations. The treasurer has been given the authority to allocate Board appropriations to the object level within all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Note 3 – Changes in Accounting Principle and Restatement of Net Assets

A. Change in Accounting Principle

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School District.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Restatement of Net Assets

During fiscal year 2004 it was determined that intergovernmental receivable and nondepreciable capital assets were misstated at June 30, 2003. These restatements had the following effects on net assets as they were previously reported.

	Governmental Activities
Net Assets, June 30, 2003	\$53,229,074
Intergovernmental Receivable	(8,287)
Adjusted Net Assets, June 30, 2003	<u>\$53,220,787</u>

Note 4 – Accountability and Compliance

A. Accountability

Fund balances at June 30, 2004, included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
General Fund	\$3,077,521
<i>Special Revenue Funds:</i>	
Food Service	300
Post Secondary Vocational Education	113
Disadvantaged Pupil Impact Aid	173,971
Impact Aid	35
Eisenhower	218
Goals 2000	43

B. Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to section 5705.41, Ohio Revised Code:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<i>Special Revenue Funds:</i>			
Classroom Facilities Maintenance			
Support Services - Fiscal Services	\$0	\$1,562	\$1,562
Eisenhower Grant			
Support Services - Instructional Staff	928	25,387	24,459
Disadvantaged Pupil Impact Aid			
Support Services - Instructional Staff	665	797	132

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The fiscal officer failed to properly certify expenditures contrary to Section 5705.41(D), Ohio Revised Code.

The following funds had original appropriations in excess of original estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code.

	Estimated Resources Plus Carryover Balances	Appropriations	Excess
General Fund	\$20,393,209	\$24,485,147	\$4,091,938
<i>Special Revenue Funds:</i>			
Food Service	962,562	1,072,555	109,993
Athletics	221,960	241,616	19,656
Post Secondary Vocational Education	22,708	128,982	106,274
Technology Equity	28,110	35,273	7,163
Ohio Reads Grant	65,420	215,135	149,715
Adult Basic Education	38,107	43,519	5,412
Vocational Education Enhancements	(1,823)	8,369	10,192
Title VI-B	394,379	595,655	201,276
Title I	1,401,267	1,798,545	397,278
Title V	20,315	44,902	24,587
Drug Free Grant	26,753	43,803	17,050
Class Size Reduction	189,373	330,726	141,353
Miscellaneous Federal Grant	121,106	491,183	370,077
<i>Debt Service Fund:</i>			
Bond Retirement Fund	222,313	309,831	87,518

The goals 2000 special revenue fund had negative cash balance of \$43 as of June 30, 2004 indicating that revenues from other sources were used to pay obligations of this fund, contrary to Ohio Revised Code Section 5705.10. Management has indicated that all cash balances will be closely monitored to ensure no future violations.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The following funds had total final appropriations in excess of final estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	Estimated Resources Plus Carryover		
	Balances	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Food Service	\$974,415	\$1,120,056	\$145,641
Miscellaneous Local Grants	21,662	33,669	12,007
Ohio Reads Grant	68,420	68,886	466
Summer Intervention	133,820	134,215	395
Vocational Education Enhancements	15,359	15,503	144
Impact Aid	3,752	3,761	9
Vocational Education	66,398	67,319	921
Title V	23,151	23,154	3
Preschool Grant	20,266	20,333	67
Goals 2000	(43)	0	43

Although these violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to ensure no future violations.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. A Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual is presented in the basic financial statements for the general fund. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

GAAP Basis	(\$1,078,039)
Revenue Accruals	(591,958)
Advances In	(5,093)
State Solvency Assistance Loan	2,606,000
Expenditure Accruals	454,093
Advances Out	48,517
Encumbrances	<u>(135,042)</u>
Budget Basis	<u><u>\$1,298,478</u></u>

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies maybe deposited or invested in the following securities:

1. United States treasury notes, bills, bonds or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain Banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Undeposited Cash At fiscal year-end, the School District had \$450 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements."

Deposits At year-end, the carrying amount of the School District's deposits was \$2,272,338 and the bank balance was \$2,527,919. Of the bank balance, \$300,000 was covered by federal depository insurance and \$2,227,919 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Investments GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio, the State Treasurer's Investment Pool, which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$2,229,391	\$2,229,391	\$2,229,391
Federal Home Loan Bank Consolidated Bonds	1,981,660	1,981,660	1,981,660
Federal Home Loan Mortgage Association Notes	4,056,565	4,056,565	4,056,565
STAROhio	0	2,662,157	2,662,157
Total Investments	\$8,267,616	\$10,929,773	\$10,929,773

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement No. 9</i>	\$13,202,561	\$0
Cash on Hand	(450)	0
Investments of the Cash Management Pool:		
Repurchase Agreements	(2,229,391)	2,229,391
Federal Home Loan Bank Consolidated Bonds	(1,981,660)	1,981,660
Federal Home Loan Mortgage Association Notes	(4,056,565)	4,056,565
STAROhio	(2,662,157)	2,662,157
<i>GASB Statement No. 3</i>	\$2,272,338	\$10,929,773

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Columbiana County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end.. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$196,574 in the general fund, \$20,712 in the bond retirement debt service fund and \$3,236 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2003, was \$155,343 in the general fund, \$17,502 in the bond retirement debt service fund, \$2,735 in the classroom facilities maintenance special revenue fund and \$7,894 in the permanent improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second - Half Collections		2004 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$131,486,400	80.64%	\$133,311,960	82.79%
Public Utility	9,934,030	6.09	9,934,030	6.17
Tangible Personal Property	21,632,100	13.27	17,784,780	11.04
Total Assessed Value	<u>\$163,052,530</u>	<u>100.00%</u>	<u>\$161,030,770</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.00		\$37.60	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, student fees and tuition), interfund, grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables except for the Ohio School Facilities Commission are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Ohio School Facilities Commission	\$49,477,054
Tuition	163,719
State of Ohio Auditors Office	102,510
Title I Grants	40,055
Reducing Class Size Grants	39,409
Columbiana County Auditors Office	16,000
Total	<u>\$49,838,747</u>

In August of 2003, the School District signed a project agreement with the Ohio School Facilities Commission to renovate/provide additions to five school buildings. The total project budget was \$59,751,022. The State share of the project budget was \$51,982,022 (87 percent of the total) and the local share of the project budget was \$7,769,000 (13 percent of the total).

As a result of a lawsuit challenging among other matters original enrollment projections, the Ohio School Facilities Commission developed revised enrollment projections and presented four additional options for the construction and renovation project. At present, the option most likely to be selected by the Board of Education involves renovations to four school buildings, the construction of the one school building and selective demolition of portions of one school building. Should this option be selected, the total project budget would be \$59,450,664. The State share of the project budget would be \$51,722,078 (87 percent of the total) and the local share of the project budget would be \$7,728,586 (13 percent of the total).

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 9 – Interfund Transfers and Balances

A. Interfund Transfers

The general fund transferred \$104,623 to the bond retirement debt service fund for the energy conservation loan principal and interest payments. The title VI-B special revenue fund transferred \$25,250 to the general fund for title VI-B expenditures.

B. Interfund Balances

<u>Interfund Payable</u>	<u>Interfund Receivable General</u>
Nonmajor Special Revenue Funds:	
Food Service	\$48,517
Extracurricular	2,131
SchoolNet	10,908
Summer Intervention	124
Eisenhower Grant	218
Title VI-B	35,426
Vocational Education	3,264
Goals 2000	43
Reducing Class Size	39
<i>Total All Funds</i>	<u><u>\$100,670</u></u>

Interfund receivables and payables are due to the timing of grant monies by the nonmajor funds and due to the requirement that negative cash balances must be covered at year end. The general fund advanced money to the food service special revenue fund to provide additional resources for current operations.

Note 10 – Note Debt

During 2004, the School District received an interest free State solvency assistance loan in the amount of \$2,606,000. The State solvency assistance loan will be paid from the general fund with school foundation revenue. A liability for the notes is reflected in the general fund which received the proceeds.

<u>Fiscal Year Ending June 30,</u>	<u>State Solvency Assistance Loan Principal</u>
2005	\$1,303,000
2006	1,303,000
	<u><u>\$2,606,000</u></u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$398,820	\$0	\$0	\$398,820
Construction in Progress	0	633,296	0	633,296
<i>Total Nondepreciable Capital Assets</i>	398,820	633,296	0	1,032,116
<i>Capital Assets being Depreciated:</i>				
Land Improvements	553,742	0	0	553,742
Buildings and Improvements	11,632,066	0	0	11,632,066
Furniture and Equipment	5,223,064	27,971	0	5,251,035
Vehicles	1,380,968	118,300	0	1,499,268
<i>Total Capital Assets being Depreciated</i>	18,789,840	146,271	0	18,936,111
Less Accumulated Depreciation:				
Land Improvements	(245,302)	(23,739)	0	(269,041)
Buildings and Improvements	(10,368,573)	(215,852)	0	(10,584,425)
Furniture and Equipment	(3,550,194)	(344,572)	0	(3,894,766)
Vehicles	(941,641)	(86,662)	0	(1,028,303)
<i>Total Accumulated Depreciation</i>	(15,105,710)	(670,825) *	0	(15,776,535)
<i>Total Assets being Depreciated, Net</i>	3,684,130	(524,554)	0	3,159,576
<i>Governmental Activities Capital Assets, Net</i>	\$4,082,950	\$108,742	\$0	\$4,191,692

*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$254,393
Special	105,799
Vocational	46,848
Support Services:	
Pupils	27,378
Instructional Staff	12,108
Administration	48,448
Fiscal	3,401
Operation and Maintenance of Plant	44,348
Pupil Transportation	76,885
Extracurricular Activities	51,217
Total Depreciation Expense	\$670,825

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District has contracted with Selective Insurance Company of South Carolina for various types of insurance. Coverage provided is as follows:

Types of Coverage	Coverage Amount
Property: All Building and Contents (\$1,000 deductible)	\$73,265,312
Flood: Field, Building and Contents (\$25,000 deductible)	1,000,000
Inland Marine Coverage (\$1,000 deductible)	1,800,000
Crime Insurance (\$500 deductible)	50,000
Automobile (\$500 deductible)	2,000,000
Uninsured (\$500 deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

The School District pays the State Workers Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

Note 13 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$278,485,

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

\$276,552, and \$170,580 respectively; 52.35 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003 and 2002 were \$1,772,889, \$1,745,887 and \$1,165,296 respectively; 84.85 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$6,290 made by the School District and \$22,563 made by the plan members.

C. Social Security System

Effective July 1, 1997, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$136,376 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$24,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$211,736.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 15 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. There is no limit on the amount they may accumulate. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for classified personnel and 258 days for certified personnel. Upon retirement, payment is made to classified employees for one-third of the first 90 days plus 10 percent of the remaining balance up to the 250 days maximum and to certified employees for one-third of the first 90 days plus 10 percent of the remaining balance up to 240 days maximum. In no case shall a certified retiree receive less than 10 days, regardless of the number of sick days accumulated.

B. Life Insurance

The School District provides term life insurance and accidental death and dismemberment insurance to all certified employees and to those classified employees working at least 22.5 hours per week, through Medical Mutual Life Insurance Company at 100 percent of the cost.

C. Health Insurance

The School District provides medical and dental insurance to all certified employees and to those classified employees working at least 22.5 hours per week, through Medical Mutual of Ohio. Coverage for classified employees begins the first day of the month following six months of employment, with 100 percent of the premium paid by the District. Coverage for certified employees begins the first day of employment, with 100 percent paid by the School District.

D. Retirement Incentive Bonus

The School District Board of Education offers STRS employees' participation in a Retirement Incentive Bonus program for those employees with twenty or more years of service in the School District. STRS employees who choose to accept retirement in accordance with STRS requirements receive a retirement incentive bonus payment of ten thousand dollars. STRS employees must submit a written letter of intent to retire to the School District Board of Education by December 31 of the school year in which they elect to retire.

Note 16 - Jointly Governed Organization

The Area Cooperative Computer Educational Service System (ACCESS) is a jointly governed organization. The School District is a participant in ACCESS which operates as a not-for-profit computer consortium. ACCESS's primary function is to provide data processing services to its twenty-three member school districts with the major emphasis being placed on accounting, payroll, personnel records and inventory control services. ACCESS is governed by an assembly consisting of the superintendents (or other designees) of the member school districts. The assembly exercises total control over the operation of ACCESS, including budgeting, appropriating, contracting and designating management. All revenue

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

is generated from State funding and charges for services. The School District paid ACCESS \$64,803 for services provided during the fiscal year ending June 30, 2004. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 Debartolo Place, Youngstown, Ohio 44512.

Note 17 - General Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental-Type Activities					
School Improvement Bonds QZAB 2003 0%	\$7,900,000	\$0	\$200,000	\$7,700,000	\$408,993
Energy Conservation Loan 5%	399,833	0	86,598	313,235	91,028
Capital Leases Payable	71,720	385,400	142,295	314,825	83,525
Compensated Absences	2,135,388	54,257	68,403	2,121,242	29,461
<i>Total General Long - Term Obligations</i>	<u>\$10,506,941</u>	<u>\$439,657</u>	<u>\$497,296</u>	<u>\$10,449,302</u>	<u>\$613,007</u>

During fiscal year 2003, the School District issued \$7,900,000 in general obligation permanent improvement qualified zone academy bonds (QZABs) to be used for school building renovations and improvements. General obligation bonds will be paid from the debt service fund. The QZABs mature in March 2018. The QZAB bonds will not be subject to redemption prior to maturity and no call provisions are offered. Since the bonds have been issued with a zero percent interest rate, the bond owners will not receive interest income from the bonds. However, the owners of the bonds that are eligible taxpayers (generally banks, insurance companies, and corporations actively in the business of lending money) will receive income on the bonds in the form of an annual federal tax credit. The amount of the QZAB credit will be equal to the product of the QZAB credit rate or 5.66 percent multiplied by the principal amount of bonds owned on the credit allowance date which is March 6, 2003 and each March 6th thereafter until maturity.

As indicated below, the principal requirement amounts do not total \$7,700,000. The School District will be making annual sinking fund payments over a fifteen year period to Bank One Trust Company, its escrow agent which will invest the sinking fund dollars at an interest rate that will generate at least \$1,974,094 over the loan period, the difference between the sinking payments and the bond principal. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the QZABs to be paid in full in March 2018.

The School District on September 9, 1997 issued an \$822,000 unvoted general obligation energy conservation loan for the purpose of providing energy conservation measures for the School District and to finance building improvements. The loan is being retired from taxes revenue from the classroom facilities maintenance special revenue fund. The energy conservation loan matures September 2007.

Compensated absences will be paid from the general fund and the food service, after care, auxiliary service, disadvantaged pupil impact aid, title VI-B, title I, preschool grant, reduce class size, and other grants special revenue funds. The capital lease obligations will be paid from the general fund.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The School District's overall legal debt margin was \$6,134,134 with an unvoted debt margin of \$163,053 at June 30, 2004. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

<i>Fiscal Year</i>	2003 School Improvement QZAB Bonds		1997 Energy Conservation Loan	
	Principal	Interest	Principal	Interest
2005	\$408,993	\$0	\$91,028	\$13,594
2006	408,993	0	95,686	8,937
2007	408,993	0	100,581	4,042
2008	408,993	0	25,940	216
2009	408,993	0	0	0
2010-2014	2,044,967	0	0	0
2015-2018	1,635,974	0	0	0
	<u>\$5,725,906</u>	<u>\$0</u>	<u>\$313,235</u>	<u>\$26,789</u>

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is party to legal proceedings. The School District's management is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Note 19 - Capital Leases

The School District has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$385,400. Accumulated depreciation as of June 30, 2004 was \$38,540, leaving a current book value of \$346,860.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

	<u>Amounts</u>
2005	\$83,525
2006	77,100
2007	77,100
2008	77,100
Present Value of Minimum Lease Payments	<u><u>\$314,825</u></u>

Note 20 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continues to be a set-aside.

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of June 30, 2003	\$182,130	\$0	\$135,706
Current Year Set-Aside Requirement	456,471	456,471	0
Qualifying Disbursements	(335,919)	(5,085)	0
Classroom Facilities Bonds	0	(200,000)	0
Classroom Facilities Levy	0	(79,091)	0
Permanent Improvement Levy	0	(115,696)	0
Total	<u><u>\$302,682</u></u>	<u><u>\$56,599</u></u>	<u><u>\$135,706</u></u>
Set-Aside Reserve Balance as of June 30, 2004 and Carried Forward to Future Fiscal Years	<u><u>\$302,682</u></u>	<u><u>\$56,599</u></u>	<u><u>\$135,706</u></u>

The total reserve balance for the three set-asides at the end of the fiscal year was \$494,987.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 21 – State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$98,742		\$98,742
National School Breakfast Program	05PU-2003 05PU-2004	10.553	\$20,348 93,087		\$20,348 93,087	
			113,435		113,435	
National School Lunch Program	LLP1-2003 LLP1-2004 LLP4-2003 LLP4-2004	10.555	199 1,051 68,198 330,793		199 1,051 68,198 330,793	
			400,241		400,241	
Subtotal - Nutrition Cluster			513,676	98,742	513,676	98,742
Child & Adult Care Programs		10.558	1,206		1,206	
Total U. S. Department of Agriculture			514,882	98,742	514,882	98,742
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education - State Grant Program	ADS1-2003 ABS1-2004	84.002	28,670 26,741		440 36,346	
Total Adult Education - State Grant Program			55,411		36,786	
Grants to Local Educational Agencies (ESEA Title I Part A)	C1-S1-2001 C C1-S1-2001 C1-S1-2002 C1-S1-2003 C1-S1-2004	84.010			36 869 36,067 212,875 1,080,278	
Total Grants to Local Educational Agencies (Title 1)			1,333,055		1,330,125	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BEC-2003-P 6BSF-2001-G 6BSF-2001 6BSF-2003 6BSF-2004	84.027	3,517		3,475 26 25,750 43,923 405,639	
Total Special Education Grants to States			549,052		478,813	
Special Education - Preschool Grants	PGS1-2002 PGS1-2003 PGS1-2004	84.173			550 1,797 16,604	
Total Special Education - Preschool Grants			19,772		18,951	
Total Special Education Cluster			568,824		497,764	
School Maintenance and Operational Assistance (Impact aid/SAFA)	FY03	84.041	2,870		4,660	
Vocational Education - Carl D. Perkins Act of 1984	2OC1-2001 2OC1-2002 2OC1-2002 2OC1-2003 2OC1-2004	84.048			4,172 969 66 7,698 55,647	
Total Vocational Education - Carl D. Perkins			76,003		68,552	
Safe and Drug Free Schools Grant	DRS1-2003 DRS1-2004 DRS1-2004	84.186	32,519 11,746		12,852 25,068 11,746	
Total Safe and Drug Free Schools Grant			44,265		49,666	

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Fund for the Improvement of Education (FIE) Grant	FY03	84.215			1,000	
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-1998 MS-S1-2001 MS-S1-2002	84.281			18 872 24,497	
Total Eisenhower Professional Development					25,387	
Innovative Educational Program	C2-S1-2000 C2-S1-2002 C2-S1-2003 C2-S1-2004	84.298			551 7,528 15,773 16,117	
Total Innovative Educational Program			20,740		39,969	
Technology Literacy Challenge Fund Grant	TJ-S1-2003 TJ-S1-2004	84.318			4,959 16,045	
Total Technology Literacy Challenge Fund Grant			36,082		21,004	
Comprehensive School Reform Demonstration	RFS2-2003 RFCC-2004	84.332			44,473 48,732 38,183 36,786	
Total Comprehensive School Reform Demonstration			99,945		168,174	
Class Size Reduction Subsidy	CR-S1-2002	84.340			23,966	
School Renovation Idea/Technology	AT-S4-2003	84.352A			12,218	
Title II-A, Improving Teacher Quality State Grants	TRS1-2003 TRS1-2004	84.367			38,998 270,584 191,851	
Total Title II-A, Improving Teacher Quality			309,582		231,352	
Learn and Serve America - School and Community Based Programs		94.004			350 2,709	
Total Learn and Serve America					3,059	
Total Department of Education			2,546,777		2,513,682	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Jobs and Family Services:</i>						
<i>passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Cluster: Medical Assistance Program - Title XIX - Community Alternative Funding System		93.778	106,149		146,442	
Totals			<u>\$3,208,101</u>	<u>\$98,742</u>	<u>\$3,175,006</u>	<u>\$98,742</u>

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

FISCAL YEAR ENDED JUNE 30, 2004

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT* *AUDITING STANDARDS*

East Liverpool City School District
Columbiana County
500 Maryland Street
East Liverpool, OH 43920

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of East Liverpool City School District, Columbiana County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 2005 wherein we noted the District implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34. We also noted the District's declaration of fiscal emergency raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and do not opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the District's management dated October 24, 2005, we reported other matters involving the internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-004. In a separate letter to the Government's management dated October 24, 2005, we reported other matters related to noncompliance we deemed immaterial.

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East Liverpool City School District
Columbiana County

Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management, Board of Education, and
federal awarding agencies and pass-through entities. It is not intended for anyone other than these
specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 24, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

East Liverpool City School District
Columbiana County
500 Maryland Street
East Liverpool, OH 43920

Compliance

We have audited the compliance of East Liverpool City School District, Columbiana County (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees while performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the management, Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 24, 2005

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 .505**

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	ESEA Title I Part A (84.010) Special Educational Cluster (#84.027) and (#84.173)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No
2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS		
Finding Number	2004-001	

Ohio Revised Code Section 5705.10 states, in part, that money paid into any fund shall be used only for the purpose for which the fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

As of November 30, 2003 the District had the following negative fund balances:

001 General Fund	(\$546,653)
006 Food Service Fund	(5,418)
512 Impact Aid Fund	(2,491)

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

As described in Note 1 to the financial statements, the District was placed in fiscal emergency which allowed them to apply for and receive a state solvency loan in the amount of \$2,606,000 which eliminated the negative cash balances listed above.

The School District Treasurer should monitor disbursements to ensure overspending does not occur and to assure monies are being used for the purpose for which the funds were established.

Finding Number	2004-002
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Ohio Revised Code Section 5705.39 states that “The total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.”

During testing, we noted the original appropriation as passed by the Board of Education exceeded the original estimated receipts for the following Funds:

Fund	Appropriations	Total Certified Resources	Excess
001 General Fund	\$24,485,147	\$20,393,209	\$4,091,938
002 Bond Retirement	309,831	222,313	87,518
006 Food Service	1,072,555	962,562	109,993
300 Athletics	241,616	221,960	19,658
413 Adult Vocational Educational	128,982	22,708	106,274
454 Technology Equity	35,273	28,110	7,163
459 Ohio Reads	215,135	65,420	149,715
461 Career Development	8,369	(1,823)	10,192
501 Adult Basic Education	43,519	38,107	5,412
516 Title VI-B	595,655	394,379	201,276
Title I	1,798,545	1,401,267	397,278
573 Title V	44,902	20,315	24,587
584 Drug Free School	43,803	26,753	17,050
590 Class Size Reduction	330,727	189,373	141,354
599 Misc. Federal Grants	491,183	121,106	370,077

During testing we noted the final appropriations exceeded estimated receipts for the Food Service Fund (nine other funds had small non-material excesses of appropriations over certified resources), at June 30, 2004 as follows.

Fund	Appropriations	Total Certified Resources	Excess
006 Food Service	1,120,057	974,415	145,642

Failure to limit appropriations to the amount certified by the County Auditor could result in overspending and negative cash balances

The School District treasurer should monitor estimated resources versus appropriations to ensure appropriations do not exceed the total estimated resources available for the year.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

Finding Number	2004-003
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Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless a certificate signed by the fiscal officer is attached. The fiscal officer must certify that the amount required for the order or contract has been lawfully appropriated and is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D) (1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. Then and Now Certificate: If the fiscal officer can certify both at the time that the contract or order was made "then" at the time that the fiscal officer is completing the certification "now", sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrances, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the School District.

2. Blanket Certificate: Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate: The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal office for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The School District did not always encumber funds at the time of the commitment. We noted 13% of the 60 expenditures tested were not properly encumbered. Incurring obligations prior to the fiscal officer's certification could result in the School District spending more than appropriated.

Unless the exceptions noted above are used, prior certification is not only required by statute but a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the School District. When prior certification is not possible, "then and now" certification should be used.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

Finding Number	2004-003-Continued
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Unless the exceptions noted above are used, prior certification is not only required by statute but a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the School District. When prior certification is not possible, "then and now" certification should be used.

We recommend the School District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the School District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Finding Number	2004-004
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Ohio Revised Code Section 5705.41(B), states in part that no subdivision or taxing unit is to expend money unless it has been appropriated.

For the fiscal year ended June 30, 2004, the School District had expenditures that exceeded appropriations in the Eisenhower Prof. Development Fund (two smaller funds also had non-material excesses), as follows:

Fund	Appropriations	Expenditures Plus Encumbrances	Excess
514 Eisenhower Prof. Development	928	25,387	24,459

We recommend the School District implement policies to provide assurance that the Board approve all appropriation changes prior to posting the appropriation ledger. We also recommend the Treasurer deny any payments until the legislative authority has passed the necessary changes to the appropriation measure.

3. Finding and Questioned Cost for Federal Awards
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None

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC 5705.41(B), expenditures plus encumbrances exceeded appropriations.	Partially Corrected	See Finding #2004-004
2003-002	ORC 5705.41(D), purchase orders not properly encumbered.	Partially Corrected	See Finding #2004-003
2003-003	ORC 5705.10, negative fund balances	Not Corrected	See Finding #2004-001



**Auditor of State
Betty Montgomery**

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**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**