



Mary Taylor, CPA
Auditor of State

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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, 2006, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the District was declared to be in fiscal emergency on December 18, 2003 under criteria established by Ohio Revised Code Section 3316.03 B(5). The District is experiencing certain financial difficulties. Management's plans in regard to this matter are also discussed in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008, 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.

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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, consisting principally of inquiries of management regarding the methods of measuring and presenting 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 federal awards receipts and expenditure schedule 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 federal awards receipts and expenditure schedule 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 30, 2008

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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, 2006. 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 influence the 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 fiscal year 2006 are as follows:

- The School District's total net assets increased from \$45,195,806 to \$46,648,278 or \$1,452,472 during this fiscal year's operations. This represents an increase of 3.21 percent.
- Revenue from governmental activities totaled \$27,638,632 in 2006. This total was comprised of program revenues of \$5,370,256 and general revenues of \$22,268,376. 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 19 percent of all revenues. General revenues accounted for 81 percent of all revenues.
- Program expenses totaled \$26,186,160. Instructional expenses accounted for 65 percent of all expenses while support services accounted for 28 percent of all expenses. Other expenses accounted for the remaining 7 percent of all expenses.
- The School District's outstanding long-term obligations decreased from \$9,586,796 to \$8,859,102 or \$727,694 (7.6 percent) during this fiscal year's operations.

Using This Annual Financial 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 18 and 19) provide an overall view of the activities of the School District for 2006. Fund financial statements that begin on page 20 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 capital projects fund are the most significant funds. The remaining statements provide financial information about activities for which the School District acts solely as an agent for the benefit of those outside the governmental entity.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole (district – 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 2006?” 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.

- *Governmental Activities* – Operations in which Property Taxes, State and Federal Grants and fees finance the 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 of this type of activity.

Analysis of the School District as a whole begins on page 6. 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 employs 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 expended.

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

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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 in a trustee capacity for individuals, private organizations and/or other governmental units 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 fiscal year 2006 versus fiscal year 2005:

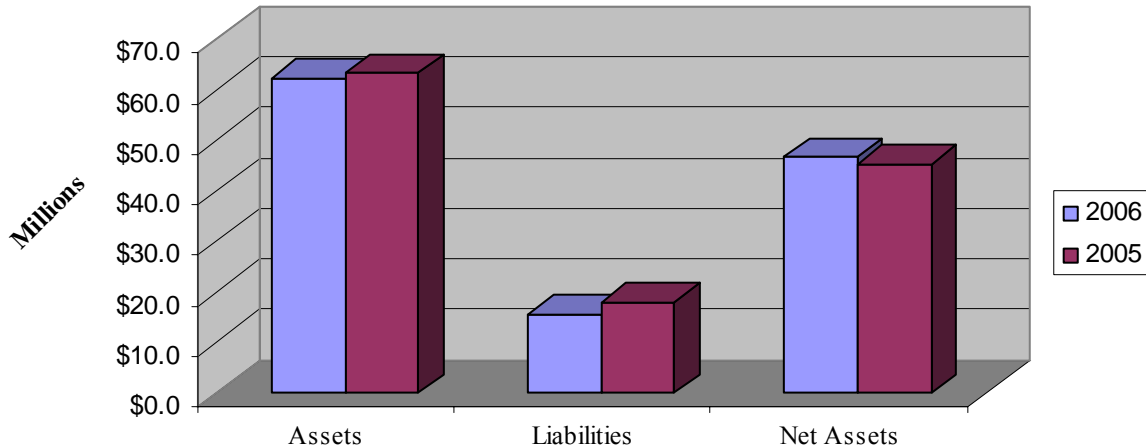
Table 1
Net Assets
Governmental Activities

	2006	2005	Change
Assets			
Current and Other Assets	\$56,596,348	\$58,458,689	(\$1,862,341)
Capital Assets, Net	5,663,023	4,762,650	900,373
<i>Total Assets</i>	<u>62,259,371</u>	<u>63,221,339</u>	<u>(961,968)</u>
Liabilities			
Current Liabilities	6,751,991	8,438,737	(1,686,746)
Long-Term Liabilities			
Due in One Year	625,804	736,141	(110,337)
Due in More Than One Year	8,233,298	8,850,655	(617,357)
<i>Total Liabilities</i>	<u>15,611,093</u>	<u>18,025,533</u>	<u>(2,414,440)</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	5,368,179	4,313,186	1,054,993
Restricted for:			
Capital Projects	43,558,626	44,353,547	(794,921)
Debt Service	548,795	528,187	20,608
Set Asides	272,007	530,596	(258,589)
Other Purpose	464,469	116,513	347,956
Unrestricted (Deficit)	(3,563,798)	(4,646,223)	1,082,425
<i>Total Net Assets</i>	<u>\$46,648,278</u>	<u>\$45,195,806</u>	<u>\$1,452,472</u>

The School District's total net assets increased from the prior fiscal year by \$1,452,472, primarily due to the School District the decreasing the State operating loan payable. This decrease was also the result of a decrease in accrued wages and benefits due to less employees being employed at the School District. These decreases were offset by an increase in cash and capital assets due to the Ohio School Facilities Commission (OSFC) project.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Governmental Activities



Of the School District's net assets totaling \$46,648,278, those subject to external restrictions as to use total \$44,843,897. Resources restricted to debt service, set asides and other purposes total \$1,285,271. Additionally \$43,558,626 in resources is restricted for capital projects.

Net Capital Assets represented 9.1 percent of total assets and increased \$900,373 from the previous fiscal year largely due to an increase in construction in progress of \$1,617,671 offset by the annual depreciation. Capital Assets, net of related debt to acquire the assets at June 30, 2006, were \$5,368,179. These capital assets are used primarily to provide services to students and are 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.

Revenues decreased \$1,917,903 mainly due to a decrease in operating grants received by the School District. The School District was able to show an increase in net assets by carefully monitoring expenses while still maintaining the academic standards expected by the community.

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

Expenses are shown in easily identifiable programs that make use of the Uniform School Accounting System (USAS) coding structure. A comparative analysis of fiscal year 2006 and fiscal year 2005 follows:

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

(Table 2)
Change in Net Assets - Governmental Funds

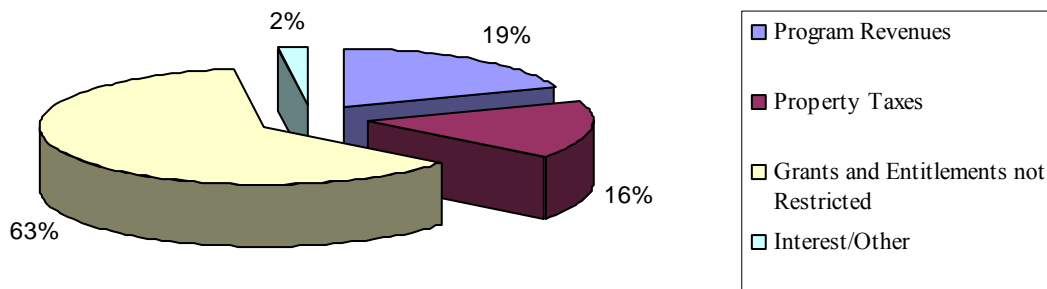
	2006	2005	Change
Revenues			
<i>Program Revenues</i>			
Charges for Services	\$1,137,801	\$1,232,354	(\$94,553)
Operating Grants and Contributions	4,177,314	5,607,382	(1,430,068)
Capital Grants	55,141	70,589	(15,448)
<i>Total Program Revenues</i>	<u>5,370,256</u>	<u>6,910,325</u>	<u>(1,540,069)</u>
<i>General Revenues</i>			
Property Taxes	4,460,684	4,603,629	(142,945)
Grants and Entitlements not Restricted to Specific Programs	17,223,683	17,347,315	(123,632)
Investment Earnings	446,932	206,202	240,730
Miscellaneous	137,077	489,064	(351,987)
<i>Total General Revenues</i>	<u>22,268,376</u>	<u>22,646,210</u>	<u>(377,834)</u>
<i>Total Revenues</i>	<u>27,638,632</u>	<u>29,556,535</u>	<u>(1,917,903)</u>
Program Expenses			
<i>Instruction</i>			
Regular	13,412,773	15,042,657	(1,629,884)
Special	2,471,777	2,725,762	(253,985)
Vocational	1,160,026	900,063	259,963
Adult /Continuing	4,652	21,318	(16,666)
<i>Support Services:</i>			
Pupil	1,188,086	1,243,838	(55,752)
Instructional Staff	1,022,993	1,346,683	(323,690)
Board of Education	190,466	275,309	(84,843)
Administration	1,199,160	1,511,175	(312,015)
Fiscal	531,551	525,631	5,920
Business	56,757	48,510	8,247
Operation and Maintenance of Plant	2,175,288	2,497,746	(322,458)
Pupil Transportation	999,184	987,236	11,948
Central	19,298	37,620	(18,322)
Extracurricular Activities	460,688	468,399	(7,711)
<i>Operation of Non-Instructional Services:</i>			
Food Service Operations	1,063,981	1,187,481	(123,500)
Other Non-Instructional Services	165,366	201,780	(36,414)
Interest and Fiscal Charges	64,114	19,653	44,461
<i>Total Program Expenses</i>	<u>26,186,160</u>	<u>29,040,861</u>	<u>(2,854,701)</u>
<i>Increase in Net Assets</i>	1,452,472	515,674	936,798
<i>Net Assets Beginning of Year</i>	<u>45,195,806</u>	<u>44,680,132</u>	<u>515,674</u>
<i>Net Assets End of Year</i>	<u>\$46,648,278</u>	<u>\$45,195,806</u>	<u>\$1,452,472</u>

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 depicts the breakdown of both the School District's revenue sources and the types of services provided. Revenues in excess of the cost of services provided resulted in an increase to net assets of \$1,452,472 in fiscal year 2006.

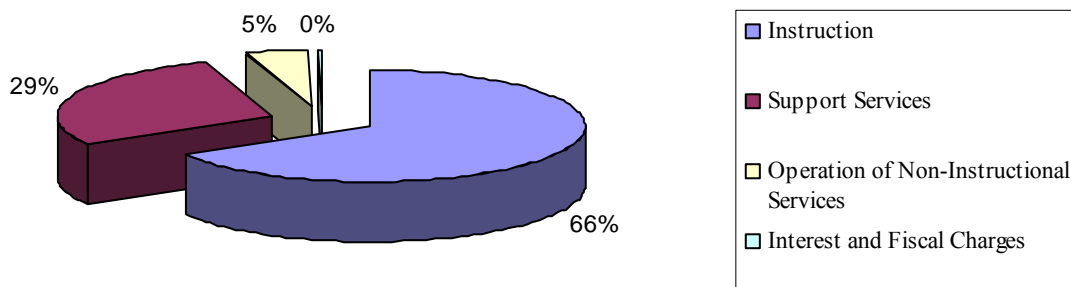
As depicted in the chart below, general revenue (property taxes, grants and entitlements, and interest/other) equate to 81 percent of total revenue and program revenue (charges for services, operating grants and capital grants and contributions) equate to 19 percent of total revenue.

Revenues



Instruction comprises 66 percent of Program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 29 percent. The remaining 5 percent of Program expenses meet other obligations of the School District such as for extracurricular activities; food service operations, other non instructional services and interest and fiscal charges

Program Expenses



The 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 that must be covered by Unrestricted State Aid (State Foundation) or Local Taxes. A comparative analysis of fiscal year 2006 and fiscal year 2005 follows:

East Liverpool City School District
Management's Discussion and Analysis
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(Table 3)
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction				
Regular	\$13,412,773	(\$11,307,875)	\$15,042,657	(\$11,976,880)
Special	2,471,777	(2,256,771)	2,725,762	(2,437,398)
Vocational	1,160,026	(1,050,085)	900,063	(810,518)
Adult/Continuing	4,652	(4,478)	21,318	(21,318)
Support Services:				
Pupil	1,188,086	(513,997)	1,243,838	(616,414)
Instructional Staff	1,022,993	(524,897)	1,346,683	(716,081)
Board of Education	190,466	(183,066)	275,309	(266,937)
Administration	1,199,160	(949,375)	1,511,175	(1,035,550)
Fiscal	531,551	(488,575)	525,631	(446,682)
Business	56,757	(54,809)	48,510	(47,290)
Operation and Maintenance of Plant	2,175,288	(2,086,953)	2,497,746	(2,390,821)
Pupil Transportation	999,184	(934,528)	987,236	(877,021)
Central	19,298	(18,635)	37,620	(18,974)
Extracurricular Activities	460,688	(327,651)	468,399	(315,021)
Operation of Non-Instructional Services:				
Food Service Operations	1,063,981	(34,007)	1,187,481	(104,420)
Other Non-Instructional Services	165,366	(16,088)	201,780	(29,558)
Interest and Fiscal Charges	64,114	(64,114)	19,653	(19,653)
<i>Total Expenses</i>	<u>\$26,186,160</u>	<u>(\$20,815,904)</u>	<u>\$29,040,861</u>	<u>(\$22,130,536)</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 the year 2004 and the last triennial update in 2001. As a result of the latest reappraisal by Columbiana County in the year 2004, the School District's tax valuation increased by 5.6 percent that year. The next comprehensive re-appraisal of property values will occur in the year 2010 with a triennial preceding in the year 2007. Slow economic growth in the area has 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 had been the major reason that the School District had not sought additional operating millage until an unsuccessful effort to secure added millage in August 2005. The School District was successful in renewing an emergency levy in November 2005.

A State law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property. Increases in valuation prompt corresponding annual reductions in the "effective millage," or tax rate applied to real property. The following table illustrates the general low rate of growth in property values which has negatively impacted the School District:

East Liverpool City School District
Management's Discussion and Analysis
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Property Tax Growth - Last Ten Years

Tax Year	Total Valuation	Growth Rate
2006	\$165,424,335	(2.54) %
2005	169,730,762	5.58
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 2.07 percent. Because of the School District's low valuation (calendar year 2006 average valuation per pupil was 593 in a ranking of 612 school districts in the State of Ohio), it is highly dependent on State funding in its attempt to achieve financial stability.

The School District's Funds

Information about the School District's major funds starts on page 20. As previously stated, these funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$31,193,970 and expenditures of \$27,808,170. The net change in overall fund balance for the year was an increase of \$3,385,800 largely accounted for by increases in net fund balances in the general fund of \$1,655,319; classroom facilities capital projects fund of \$1,642,709 and other governmental funds of \$87,772.

The general fund net fund balance increase by \$1,655,319 due to an increase in intergovernmental revenue and reductions in staff offset by a slight decrease in tuition and property taxes. The classroom facilities fund net fund balance increase was largely due to revenue of \$3,262,201 due to construction project draw downs and interest income off in part by expenditure of \$1,619,492 related to the construction and renovation project.

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 fiscal year 2006, the School District amended its general fund budget on several occasions. The final budget basis revenue estimate was \$19,245,047 representing a decrease of \$285,507 from the original budget estimate of \$19,530,554 largely due to higher original estimates of tax and intergovernmental. Actual revenues of \$19,247,417 were within 1.5 percent of original general fund receipt estimates.

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For the Fiscal Year Ended June 30, 2006
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The School District revises its budget throughout the year. The final budget basis expenditure estimate was \$21,167,737 representing an increase of \$457,072 from the original budget estimate of \$21,624,809. Actual expenditures were within .6 percent of original general fund expenditure estimates.

The School District's general fund balance at fiscal year end was a deficit of \$68,581 inclusive of appropriated encumbrances. There were no state solvency assistance loans in the fiscal year.

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

Mandates of House Bill 412 and Senate Bill 345 require the setting aside of three percent of certain general fund revenues for the purchase of textbook and instructional materials and for facility repair and maintenance. Changes in law effective fiscal 2006 allow school districts in fiscal emergency, such as East Liverpool City School District, to suspend by board resolution making deposits into the textbook and instructional materials and facility repair and maintenance funds. The School District elected to suspend such contributions to the textbooks for fiscal 2006.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$5,663,023 invested in land and improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Table 4 shows fiscal year 2006 values compared to fiscal year 2005:

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$42,269	\$42,269
Construction in Progress	2,992,862	1,375,191
Land Improvements	309,359	349,155
Buildings and Improvements	809,179	1,033,879
Furniture and Equipment	1,173,317	1,548,662
Vehicles	336,037	413,494
Totals	\$5,663,023	\$4,762,650

All capital assets, excluding 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, buildings and improvements and furniture and equipment. Net increases in capital assets were \$900,373. Current year depreciation expense was \$740,156 and current year net deletions were \$47,309. Construction in progress increased as the School District started the OSFC building project. Please refer to Note 11 within the Notes to the Basic Financial Statements for further information on capital assets.

East Liverpool City School District
Management's Discussion and Analysis
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Unaudited

Debt

At June 30, 2006, the School District had reduced its outstanding long-term obligation by \$727,694 largely resulting from decreases in the 2003 QZAB school improvement bond and the 1997 energy conservation loan as well as declines in capital leases and compensated absences payable.

(Table 5)
Outstanding Long-Term Obligations

	Governmental Activities	
	2006	2005
School Improvement Bonds	\$6,882,014	\$7,291,007
Energy Conservation Loan	126,521	222,207
Capital Leases	168,323	252,486
Compensated Absences	1,682,244	1,821,096
Totals	\$8,859,102	\$9,586,796

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, 2006, the School District's overall legal debt margin was \$9,148,623 with an unvoted debt margin of \$150,570. 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. 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 through greater academic achievement in the latter, leading to total academic success.

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Unaudited

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.

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 look to increased reliance on local property taxes to fund its operations as State sourced revenue, already the major source of operational revenue, is expected to provide 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 (fiscal year 2007 through 2011).

Externally, the School District is largely dependent on State funding sources (approximately 71 percent of the School District's operating funds are projected to result from State foundation revenue, homestead and rollback reimbursement and other entitlements in fiscal year 2006). State foundation revenue is fundamentally a function of student enrollment and school district 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 in that amount prior to June 30, 2004 to eliminate a projected deficit. An additional solvency assistance loan was approved and funds in the amount of \$201,000 were received prior to June 30, 2005 to eliminate a projected cash deficit.

The necessity of repaying the solvency assistance loans over a three year time period beginning in 2005 and continuing through 2007 has required the development of multiple deficit reduction plans in order to 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 a noticeable decline in the number of teaching, support staff and administrative positions that has continued through the end of the 2006 school year.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Although the School District had hoped that modest increases in State per-pupil funding contained in the fiscal year 2006 and fiscal year 2007 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 2007 school year, it remains clear that the School District is at a financial and operational crossroad. Financially, with 68 percent of the School District's budget driven by personnel and benefit costs and outstanding debt and largely required services projected to absorb another 26 percent of the School District's budget, revenue enhancements along with spending reductions (affecting staffing levels) remain needed for the long term financial health of the School District. The School District's recovery plans remain a mix of additional local revenue and spending reductions. Success in achieving the plan is projected to require a multi-year approach.

Operationally, the School District maintains four educational facilities (two elementary buildings, one joint elementary and middle school, and one high school) as well as an administration building and a bus garage. Each of those educational facilities were constructed in excess of thirty years ago and remain in need of 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 have resulted in a reduction in the number of buildings in operation to generate operational savings. Recognition has been given 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 original project 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. The total project budget was to have been \$59,751,022.

With a significant modification to enrollment projections, the original project agreement was amended in June 2005 to reflect a reduction in the project. The State is to provide \$44,746,918 or 87.0 percent of total project funding and the School District is to provide \$6,687,674 or 13.0 percent of project funding. The total project budget was reduced to \$51,434,592.

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 June 30, 2006, the facilities program remains in the design phase.

*East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

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 mail east_dt@access-k12.org.

East Liverpool City School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$12,472,408
Accounts Receivable	5,550
Accrued Interest Receivable	4,501
Intergovernmental Receivable	39,338,014
Inventory Held for Resale	17,886
Materials and Supplies Inventory	3,414
Prepaid Items	33,400
Taxes Receivable	4,654,554
Deferred Charges	66,621
Nondepreciable Capital Assets	3,035,131
Depreciable Capital Assets, Net	<u>2,627,892</u>
<i>Total Assets</i>	<u>62,259,371</u>
Liabilities	
Accounts Payable	76,742
Accrued Wages and Benefits	1,699,118
Intergovernmental Payable	518,798
Deferred Revenue	4,143,388
Matured Lease Payable	7,014
Matured Compensated Absences Payable	71,431
Special Termination Benefits Payable	135,000
State Operating Loan Payable	100,500
Long-Term Liabilities:	
Due Within One Year	625,804
Due In More Than One Year	<u>8,233,298</u>
<i>Total Liabilities</i>	<u>15,611,093</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,368,179
Restricted for:	
Capital Projects	43,558,626
Debt Service	548,795
Set Asides	272,007
Other Purposes	464,469
Unrestricted (Deficit)	<u>(3,563,798)</u>
<i>Total Net Assets</i>	<u><u>\$46,648,278</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, 2006

	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	\$13,412,773	\$408,057	\$1,687,157	\$9,684	(\$11,307,875)
Special	2,471,777	86,368	128,638	0	(2,256,771)
Vocational	1,160,026	37,163	72,778	0	(1,050,085)
Adult/Continuing	4,652	174	0	0	(4,478)
Support Services:					
Pupil	1,188,086	21,817	652,272	0	(513,997)
Instructional Staff	1,022,993	16,177	453,887	28,032	(524,897)
Board of Education	190,466	7,400	0	0	(183,066)
Administration	1,199,160	71,033	178,752	0	(949,375)
Fiscal	531,551	18,540	24,436	0	(488,575)
Business	56,757	1,948	0	0	(54,809)
Operation and Maintenance of Plant	2,175,288	81,049	7,286	0	(2,086,953)
Pupil Transportation	999,184	34,591	12,640	17,425	(934,528)
Central	19,298	430	233	0	(18,635)
Extracurricular Activities	460,688	125,764	7,273	0	(327,651)
Operation of Non-Instructional Services:					
Food Service Operations	1,063,981	226,072	803,902	0	(34,007)
Other Non-Instructional Services	165,366	1,218	148,060	0	(16,088)
Interest and Fiscal Charges	64,114	0	0	0	(64,114)
Total Governmental Activities	\$26,186,160	\$1,137,801	\$4,177,314	\$55,141	(20,815,904)
 General Revenues					
Property Taxes Levied for:					
					3,821,898
					68,467
					570,319
					17,223,683
					446,932
					137,077
					22,268,376
					1,452,472
					45,195,806
					\$46,648,278

See accompanying notes to the basic financial statements

East Liverpool City School District

Balance Sheet

Governmental Funds

June 30, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$0	\$10,967,844	\$1,259,515	\$12,227,359
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	245,049	0	0	245,049
Accounts Receivable	3,826	0	1,724	5,550
Accrued Interest Receivable	4,501	0	0	4,501
Intergovernmental Receivable	63,246	39,274,768	0	39,338,014
Prepaid Items	32,978	0	422	33,400
Interfund Receivable	91,236	0	0	91,236
Inventory Held for Resale	0	0	17,886	17,886
Materials and Supplies Inventory	0	0	3,414	3,414
Taxes Receivable	4,217,125	0	437,429	4,654,554
Total Assets	\$4,657,961	\$50,242,612	\$1,720,390	\$56,620,963
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$34,657	\$1,821	\$40,264	\$76,742
Accrued Wages and Benefits	1,347,701	0	351,417	1,699,118
Interfund Payable	0	0	91,236	91,236
Intergovernmental Payable	405,407	0	113,391	518,798
Deferred Revenue	3,875,966	39,274,768	391,004	43,541,738
Matured Lease Payable	7,014	0	0	7,014
Matured Compensated Absences Payable	67,058	0	4,373	71,431
Special Termination Benefits Payable	135,000	0	0	135,000
State Operating Loan Payable	100,500	0	0	100,500
Total Liabilities	5,973,303	39,276,589	991,685	46,241,577
Fund Balances				
Reserved for Encumbrances	310,000	2,156,590	74,792	2,541,382
Reserved for Bus Purchase	73,485	0	0	73,485
Reserved for Textbooks	272,007	0	0	272,007
Reserved for Property Taxes	404,405	0	46,425	450,830
Unreserved:				
Undesignated, (Deficit) Reported in:				
General Fund	(2,375,239)	0	0	(2,375,239)
Special Revenue Funds	0	0	44,019	44,019
Debt Service Fund	0	0	505,247	505,247
Capital Projects Funds	0	8,809,433	58,222	8,867,655
Total Fund (Deficit) Balances	(1,315,342)	10,966,023	728,705	10,379,386
Total Liabilities and Fund Balances	\$4,657,961	\$50,242,612	\$1,720,390	\$56,620,963

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, 2006

Total Governmental Fund Balances	\$10,379,386
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*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.	5,663,023
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	60,336
School Facilities Monies	39,274,768
Tuition	<u>63,246</u>

Total	39,398,350
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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.	66,621
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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	(6,882,014)
Energy Conservation Loan	(126,521)
Capital Leases	(168,323)
Compensated Absences	<u>(1,682,244)</u>

Total	<u>(8,859,102)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$46,648,278</u></u>
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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, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$4,118,706	\$0	\$672,791	\$4,791,497
Intergovernmental	17,232,056	2,937,639	4,513,470	24,683,165
Interest	96,910	324,562	25,460	446,932
Tuition and Fees	684,279	0	0	684,279
Extracurricular Activities	0	0	156,099	156,099
Charges for Services	0	0	226,072	226,072
Rentals	8,105	0	0	8,105
Contributions and Donations	5,555	0	55,189	60,744
Miscellaneous	114,653	0	22,424	137,077
<i>Total Revenues</i>	<u>22,260,264</u>	<u>3,262,201</u>	<u>5,671,505</u>	<u>31,193,970</u>
Expenditures				
Current:				
Instruction:				
Regular	11,013,417	0	1,993,929	13,007,346
Special	2,315,817	0	158,882	2,474,699
Vocational	986,238	0	93,003	1,079,241
Adult/Continuing	4,652	0	0	4,652
Support Services:				
Pupil	587,998	0	594,743	1,182,741
Instructional Staff	445,000	0	577,161	1,022,161
Board of Education	197,918	0	1,006	198,924
Administration	911,042	0	289,209	1,200,251
Fiscal	495,972	0	35,719	531,691
Business	51,656	0	0	51,656
Operation and Maintenance of Plant	2,176,584	0	13,443	2,190,027
Pupil Transportation	923,490	0	14,619	938,109
Central	0	0	814	814
Extracurricular Activities	218,624	0	173,078	391,702
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,057,602	1,057,602
Other Non-Instructional Services	32,572	0	138,234	170,806
Capital Outlay	0	1,619,492	39,357	1,658,849
Debt Service:				
Principal Retirement	84,163	0	504,679	588,842
Interest and Fiscal Charges	0	0	58,057	58,057
<i>Total Expenditures</i>	<u>20,445,143</u>	<u>1,619,492</u>	<u>5,743,535</u>	<u>27,808,170</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,815,121</u>	<u>1,642,709</u>	<u>(72,030)</u>	<u>3,385,800</u>
Other Financing Sources (Uses)				
Transfers In	0	0	159,802	159,802
Transfers Out	(159,802)	0	0	(159,802)
<i>Total Other Financing Sources (Uses)</i>	<u>(159,802)</u>	<u>0</u>	<u>159,802</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,655,319	1,642,709	87,772	3,385,800
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(2,970,661)</u>	<u>9,323,314</u>	<u>640,933</u>	<u>6,993,586</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,315,342)</u>	<u>\$10,966,023</u>	<u>\$728,705</u>	<u>\$10,379,386</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, 2006*

Net Change in Fund Balances - Total Governmental Funds \$3,385,800

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

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	1,687,838
Current Year Depreciation	<u>(740,156)</u>

Total	947,682
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (47,309)

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

Delinquent Property Taxes	(330,813)
Tuition and Fees	63,246
School Facilities Monies	(2,937,639)
Grants	<u>(350,132)</u>

Total	(3,555,338)
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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	95,686
School Improvement Bonds	408,993
Capital Leases Payable	<u>84,163</u>

Total	588,842
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 138,852

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$1,452,472</u></u>
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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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$2,494,593	\$2,458,126	\$2,458,126	\$0
Intergovernmental	16,006,823	15,772,825	15,772,825	0
Interest	89,934	88,619	95,477	6,858
Tuition and Fees	808,113	796,300	796,502	202
Rentals	12,628	12,443	6,705	(5,738)
Contributions and Donations	3,313	3,265	3,265	0
Miscellaneous	115,150	113,469	114,517	1,048
<i>Total Revenues</i>	<u>19,530,554</u>	<u>19,245,047</u>	<u>19,247,417</u>	<u>2,370</u>
Expenditures				
Current:				
Instruction:				
Regular	11,398,476	11,176,407	11,173,001	3,406
Special	2,425,342	2,498,563	2,498,563	0
Vocational	904,059	969,910	969,725	185
Adult/Continuing	254	4,609	4,609	0
Support Services:				
Pupil	662,718	620,558	581,417	39,141
Instructional Staff	628,512	561,259	473,196	88,063
Board of Education	283,074	241,267	214,568	26,699
Administration	1,022,543	933,451	923,194	10,257
Fiscal	523,802	503,641	502,357	1,284
Business	56,767	55,309	55,309	0
Operation and Maintenance of Plant	2,536,415	2,349,167	2,296,350	52,817
Pupil Transportation	952,062	1,001,577	995,506	6,071
Extracurricular Activities	211,105	219,455	219,455	0
Operation of Non-Instructional Services:				
Other Non-Instructional Services	19,680	32,564	32,564	0
<i>Total Expenditures</i>	<u>21,624,809</u>	<u>21,167,737</u>	<u>20,939,814</u>	<u>227,923</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,094,255)</u>	<u>(1,922,690)</u>	<u>(1,692,397)</u>	<u>230,293</u>
Other Financing Sources (Uses)				
Current Revenue Anticipation Notes Issued	1,623,737	1,600,000	1,600,000	0
Advances In	763,313	752,152	750,527	(1,625)
Advances Out	(108,069)	(574,329)	(572,248)	2,081
Transfers In	2,825	2,784	0	(2,784)
Transfers Out	(183,406)	(264,425)	(264,425)	0
<i>Total Other Financing Sources (Uses)</i>	<u>2,098,400</u>	<u>1,516,182</u>	<u>1,513,854</u>	<u>(2,328)</u>
<i>Net Change in Fund Balance</i>	4,145	(406,508)	(178,543)	227,965
<i>Fund Deficit Beginning of Year</i>	(172,876)	(172,876)	(172,876)	0
Prior Year Encumbrances Appropriated	282,838	282,838	282,838	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$114,107</u>	<u>(\$296,546)</u>	<u>(\$68,581)</u>	<u>\$227,965</u>

See accompanying notes to the basic financial statements

East Liverpool City School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Private Purpose Trust	
	Endowment	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$14,004	<u>\$41,466</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$41,466</u>
Net Assets		
Held in Trust for Scholarships	8,800	
Unrestricted	<u>5,204</u>	
<i>Total Net Assets</i>	<u>\$14,004</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
For the Fiscal Year Ended June 30, 2006

	<u>Endowment</u>
Additions	
Interest	\$128
Deductions	
Scholarships	<u>2,747</u>
<i>Change in Net Assets</i>	(2,619)
<i>Net Assets Beginning of Year</i>	<u>16,623</u>
<i>Net Assets End of Year</i>	<u><u>\$14,004</u></u>

See accompanying notes to the basic financial statements

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 108 non-certificated employees, 206 certified full-time teaching personnel and 24 administrative employees who provide services to 2,682 students and other community members. The School District currently operates four 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 is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of the Office of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of East Liverpool. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. 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. The recovery plan was adopted on March 24, 2004. State law requires that the plan be updated annually. The recovery plan includes staff reductions of one administrator, 12 administrative staff, 34 classified and 68 certified positions and reductions to supplies, supplemental contracts and fringe benefits with an estimated savings of \$4,853,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal year 2007 and beyond.

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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 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. Information regarding 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. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore no business-type activities are presented.

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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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.

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 used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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.

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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.

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".

During 2006, investments were limited to federal home loan bank bonds, federal home loan mortgage corporation notes, federal home loan mortgage corporation bonds, federal farm credit bank bonds, federal national mortgage association notes and STAROhio.

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, 2006.

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 2006 amounted to \$96,910, which includes \$88,129 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, 2006, 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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or 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 set aside to create a reserve for textbooks. See Note 20 for additional information regarding set-asides.

I. Deferred Charges

On the governmental fund statements, bond issuance costs 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. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand 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, are 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:

Description	Estimated Lives
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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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. The School District records a liability for accumulated unused vacation when earned for all employees with more than one year of service.

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.

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. Internal Activity

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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, bus purchase, textbooks and property taxes.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

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 enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$44,843,897, none of which is restricted by enabling legislation. Net assets restricted for other purposes include operation of instructional services, food service operations and extracurricular activities.

The School District first applies restricted resources 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, function and object level for the final appropriations.

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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 3 - Change in Accounting Principles

A. Change in Accounting Principles

For fiscal year 2006, the School District has implemented GASB Statement No. 42 “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” and GASB Statement No. 47, “Accounting for Termination Benefits”.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 42 and GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

B. Restatement of Net Assets

During fiscal year 2005, the capital lease payable was understated by \$26,482. This adjustment changed ending net assets from \$45,222,288 to \$45,195,806.

Note 4 – Accountability and Compliance

A. Accountability

Fund balances at June 30, 2006, included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
General Fund	\$1,315,342
<i>Special Revenue Funds:</i>	
Food Service	59,280
Poverty Aid	43,349
Title VI-B	40,171
Vocational Education Enhancement	10,000
Title I	128,138
Drug Free Schools	3,414
Preschool	1,745
Reducing Classroom Size	55,521
<i>Capital Projects Fund:</i>	
School Net	7,115

The general fund concluded fiscal year 2006 with a deficit fund balance of \$1,315,342. The deficit resulted because the School District expended more than was recorded in revenue.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

The special revenue funds and the school net capital projects fund have deficits caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

B. Compliance

The School District had a negative cash balance in the reducing class size special revenue fund in the amount of \$18,374, indicating that revenue from other sources were used to pay the obligations of this fund, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the School District will make cash advances during the year.

The Ohio Reads special revenue fund had original appropriations in excess of original estimated resources plus carryover balances of \$414 contrary to Section 5705.39, Ohio Revised Code.

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
General Fund	\$21,709,945	\$22,006,491	\$296,546
<i>Special Revenue Funds:</i>			
Vocational Education Enhancements	91,423	92,815	1,392

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).

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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	\$1,655,319
Revenue Accruals	26,799
Advances In	750,527
Proceeds of Notes	1,600,000
Revenue for Debt Repayment	(3,039,646)
Expenditure Accruals	(267,329)
Advances Out	(572,248)
Encumbrances	<u>(331,965)</u>
Budget Basis	<u><u>(\$178,543)</u></u>

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands on the School District Treasury. Active 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.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Mortgage 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$4,882,516 of the School District's bank balance of \$5,195,365 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all 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.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

Investments are reported at fair value. As of June 30, 2006, the School District had the following investments:

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

	Maturity			Total
	Less Than Six Months	Six to Twelve Months	One to Two Years	
Federal Home Loan Bank Bond	\$0	\$740,010	\$0	\$740,010
Federal Home Loan Mortgage Corporation Note	1,998,409	0	0	1,998,409
Federal Home Loan Mortgage Corporation Bond	0	1,006,373	0	1,006,373
Federal Farm Credit Bank Bond	0	1,302,536	0	1,302,536
Federal National Mortgage Association Note	1,361,611	0	803,973	2,165,584
STAROhio	1,545,243	0	0	1,545,243
<i>Totals</i>	<u>\$4,905,263</u>	<u>\$3,048,919</u>	<u>\$803,973</u>	<u>\$8,758,155</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments. The Federal Home Loan Bank Bond, the Federal Home Loan Mortgage Corporation Note, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank Bond and the Federal National Mortgage Association Note are exposed to custodial credit risk in that they are uninsured, unregistered and held by counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee

Credit Risk. The Federal Home Loan Bank Bond, the Federal Home Loan Mortgage Corporation Note, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank Bond and the Federal National Mortgage Association Note carries a rating of AAA by Standard & Poor's and STAROhio also carries a rating of AAA by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2006:

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

<u>Investment</u>	<u>Percentage of Investments</u>
Federal Home Loan Bank Bond	8 %
Federal Home Loan Mortgage Corporation Note	23
Federal Home Loan Mortgage Corporation Bond	11
Federal Farm Credit Bank Bond	15
Federal National Mortgage Association Note	25
STAROhio	18

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. 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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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, 2006, are available to finance fiscal year 2006 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, 2006 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, 2006 was \$404,405 in the general fund, \$38,805 in the bond retirement debt service fund and \$7,620 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2005 was \$183,471 in the general fund, \$17,687 in the bond retirement debt service fund and \$3,119 in the classroom facilities maintenance special revenue 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.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second - Half Collections		2006 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$142,601,120	84.54 %	\$143,016,460	84.26 %
Public Utility	9,934,030	5.89	10,312,380	6.08
Tangible Personal Property	16,144,130	9.57	16,401,922	9.66
Total Assessed Value	<u>\$168,679,280</u>	<u>100.00 %</u>	<u>\$169,730,762</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$37.60		\$37.00	

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 8 – Interfund Transfers and Balances

A. Interfund Transfers

Transfers To	Transfers From General
<i>Nonmajor Funds:</i>	
Food Service	\$75,411
Public School Support	3,265
After Care	3,372
Ohio Reads	963
Perkins Grant	1,430
Title I	66,139
Title VI	932
Drug Free	328
Reducing Class Size	7,734
Miscellaneous Federal Grant	228
Total	\$159,802

The general fund transfers were to help provide funding for fiscal year 2006 to these individual funds.

B. Interfund Balance

Interfund Payable	Interfund Receivable General Fund
<i>Nonmajor Funds:</i>	
Food Service	\$23,253
Local Grants	1,627
Extracurricular	2,131
Title VI-B	35,426
Vocational Education	3,265
Reducing Class Size	18,374
SchoolNet	7,160
<i>Total All Funds</i>	\$91,236

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 9 - Receivables

Receivables at June 30, 2006, 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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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:

	<u>Amounts</u>
Ohio School Facilities Commission	\$39,274,768
Tuition	<u>63,246</u>
Total	<u><u>\$39,338,014</u></u>

During fiscal year 2005, the School District signed an amended project agreement with the Ohio School Facilities Commission to renovate four school buildings, build one school building and selective demolition of portions of one school building. The new amendment decreased the State share from \$51,982,022 to \$44,746,918 and the local share decreased from \$7,769,000 to \$6,687,674. This receivable will not be collected within one year.

Note 10 – Note Debt

During 2004 and 2005, the School District received interest free State solvency assistance loans in the amounts of \$2,606,000 and \$201,000, respectively. The State solvency assistance loans will be paid from the general fund with school foundation revenue.

During 2006, the School District issued current revenue anticipation notes in the amount of \$1,600,000. The total amount was paid before the end of the fiscal year by the general fund which received the proceeds.

	<u>Outstanding 6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/2006</u>
Fiscal Year 2004				
Solvency Assistance Loan	\$1,303,000	\$0	\$1,303,000	\$0
Fiscal Year 2005				
Solvency Assistance Loan	201,000	0	100,500	100,500
Current Revenue Anticipation Note	<u>0</u>	<u>1,600,000</u>	<u>1,600,000</u>	<u>0</u>
Total	<u><u>\$1,504,000</u></u>	<u><u>\$1,600,000</u></u>	<u><u>\$3,003,500</u></u>	<u><u>\$100,500</u></u>

In fiscal year 2007, the School District will pay \$100,500 to retire the loan.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$42,269	\$0	\$0	\$42,269
Construction in Progress	1,375,191	1,617,671	0	2,992,862
<i>Total Nondepreciable Capital Assets</i>	<u>1,417,460</u>	<u>1,617,671</u>	<u>0</u>	<u>3,035,131</u>
<i>Capital Assets being Depreciated:</i>				
Land Improvements	1,342,058	0	0	1,342,058
Buildings and Improvements	11,932,176	0	0	11,932,176
Furniture and Equipment	5,596,444	70,167	(169,459)	5,497,152
Vehicles	1,499,268	0	0	1,499,268
<i>Total Capital Assets being Depreciated</i>	<u>20,369,946</u>	<u>70,167</u>	<u>(169,459)</u>	<u>20,270,654</u>
Less Accumulated Depreciation:				
Land Improvements	(992,903)	(39,796)	0	(1,032,699)
Buildings and Improvements	(10,898,297)	(224,700)	0	(11,122,997)
Furniture and Equipment	(4,047,782)	(398,203)	122,150	(4,323,835)
Vehicles	(1,085,774)	(77,457)	0	(1,163,231)
<i>Total Accumulated Depreciation</i>	<u>(17,024,756)</u>	<u>(740,156) *</u>	<u>122,150</u>	<u>(17,642,762)</u>
<i>Total Assets being Depreciated, Net</i>	<u>3,345,190</u>	<u>(669,989)</u>	<u>(47,309)</u>	<u>2,627,892</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$4,762,650</u>	<u>\$947,682</u>	<u>(\$47,309)</u>	<u>\$5,663,023</u>

*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$466,568
Special	3,119
Vocational	17,302
Support Services:	
Pupils	16,972
Instructional Staff	5,129
Administration	39,068
Fiscal	429
Business	5,086
Operation and Maintenance of Plant	24,007
Pupil Transportation	59,425
Central	18,484
Operation of Non-Instructional Services:	
Food Service Operations	5,260
Other Non-Instructional Services	287
Extracurricular Activities	79,020
Total Depreciation Expense	<u>\$740,156</u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 2006, the School District 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)	\$76,985,484
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 - Defined Benefit 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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

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 2006, 10.58 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 a statutory maximum amount,

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$275,887, \$121,686 and \$278,845 respectively; 57.18 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 divided by 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 of 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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. 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 STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,437,683, \$1,669,918, and \$1,772,889 respectively; 87.03 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$587 made by the School District and \$14,303 made by the plan members.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, all the 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 of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$110,591 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$128,716.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

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.

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 School 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. The retirement incentive payment shall be paid in two equal payments in June of consecutive years after retirement.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 is generated from State funding and charges for services. The School District paid ACCESS \$84,164 for services provided during the fiscal year ending June 30, 2006. 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 2006 were as follows:

	Principal			Principal	Amounts
	Outstanding			Outstanding	Due in
	6/30/05	Additions	Deductions	6/30/06	One Year
Governmental-Type Activities					
2003 QZAB School Improvement Bonds - 0%	\$7,291,007	\$0	\$408,993	\$6,882,014	\$408,993
1997 Energy Conservation Loan - 5%	222,207	0	95,686	126,521	100,581
Capital Leases Payable	252,486	0	84,163	168,323	84,162
Compensated Absences	1,821,096	126,288	265,140	1,682,244	32,068
<i>Total General Long - Term Obligations</i>	<u>\$9,586,796</u>	<u>\$126,288</u>	<u>\$853,982</u>	<u>\$8,859,102</u>	<u>\$625,804</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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 tax 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, auxiliary service, poverty aid, title VI-B, vocational education, title I, drug free schools, preschool grant, reduce class size, and miscellaneous federal grants special revenue funds. The capital lease obligations will be paid from the general fund.

The School District's overall legal debt margin was \$9,148,623 with an unvoted debt margin of \$150,570 at June 30, 2006. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006, are as follows:

<i>Fiscal Year</i>	2003 School Improvement QZAB Bonds	1997 Energy Conservation Loan	
	Principal	Principal	Interest
2007	\$408,993	\$100,581	\$4,042
2008	408,993	25,940	216
2009	408,993	0	0
2010	408,993	0	0
2011	408,993	0	0
2012-2016	2,044,967	0	0
2017-2018	817,988	0	0
	<u>\$4,907,920</u>	<u>\$126,521</u>	<u>\$4,258</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, 2006.

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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 on 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. The original amounts capitalized for the capital lease and the book value as of June 30, 2006 follows:

	<u>Amounts</u>
Asset:	
Equipment	\$385,400
Less: Accumulated Depreciation	<u>(115,620)</u>
Current Book Value	<u><u>\$269,780</u></u>

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, 2006. The lease is interest free.

<u>Year Ending December 31,</u>	
2007	\$84,162
2008	<u>84,161</u>
Present Value of Minimum Lease Payments	<u><u>\$168,323</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.

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

	Textbooks	Capital Improvements
Set-Aside Reserve Balance as of June 30, 2005	\$530,596	\$0
Current Year Set-Aside Requirement	0	447,603
Qualifying Disbursements	(235,346)	(546,055)
Total	<u>\$295,250</u>	<u>(\$98,452)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$295,250</u>	<u>\$0</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$295,250</u>	<u>\$0</u>

The School District has qualifying disbursements and offsets during fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for set-asides at the end of the fiscal year was \$295,250. Due to the economic conditions at the School District, there was not enough restricted cash to cover the reserve. Restricted cash in the general fund is \$245,049.

Note 21 – Financial Difficulties

For fiscal year 2007, the School District had a change in fund balance for the general fund of \$1,655,319 and an ending fund balance of (\$1,315,342). Projected revenues and expenditures for fiscal year 2007 indicate these financial difficulties will be completely eliminated during fiscal year 2007.

Management will continue to diligently plan expenses, staying carefully within the School District's revenues.

Note 22 – Subsequent Event

On July 6, 2006, the School District issued \$750,000 in Revenue Anticipation Notes with an interest rate of 4.24 percent. These notes matured on June 29, 2007 and were not reissued.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

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>						
Food Distribution Program	N/A	10.550		\$92,985		\$92,985
Nutrition Cluster:						
National School Breakfast Program	2005 05-PU 2006 05-PU	10.553	19,608 127,791		19,608 127,791	
Total National School Breakfast Program			147,399		147,399	
National School Lunch Program	2006 LL-P1 2005 LL-P4 2006 LL-P4	10.555	847 70,380 456,799		847 70,380 456,799	
Total National School Lunch Program			528,026		528,026	
Subtotal Nutrition Cluster			675,425		675,425	
Child & Adult Care Program	2005 CC-MO 2006 CC-MO	10.558	218 1,835		218 1,835	
Total Child & Adult Care Program			2,053		2,053	
Total U.S. Department of Agriculture			677,478	92,985	677,478	92,985
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2002 C1-S1 2003 C1-S1 2004 C1-S1 2005 C1-S1 2006	84.010	46,992 -31,706 -590 90,981 1,027,242		0 0 0 175,116 1,009,820	
Total Title I Grants to Local Educational Agencies			1,132,919		1,184,936	
Title V - Innovation Program Grant	C2-S1 2002 C2-S1 2003 C2-S1 2005 C2-S1 2006	84.298	6,597 3,694 -4,285 9,757		0 0 689 8,394	
Total Title V - Innovation Program Grant			15,763		9,083	
IDEA - Part B Grant	6B-SF 2004 6B-SF 2005 6B-SF 2006	84.027	3,457 124,079 648,167		0 156,670 606,310	
Total Title II-D Grant			775,703		762,980	
Drug Free School Grant	DR-S1 2002 DR-S1 2004 DR-S1 2005 DR-S1 2006	84.186	952 -21,721 1,669 25,405		0 0 6,603 24,258	
Total Drug Free School Grant			6,305		30,861	
Title II-A Grant	TR-S1-2003 TR-S1-2004 TR-S1-2005 TR-S1-2006	84.367	3,862 590 2,756 235,206		0 1,774 36,161 227,472	
Total Title II-A Grant			242,414		265,407	
Early Childhood Special Education	PG-S1 2005 PG-S1 2006	84.173	1,029 23,635		3,158 22,452	
Total Early Childhood Special Education			24,664		25,610	
Title II-D Grant	TJ-S1 2004 TJ-S1 2005 TJ-S1 2006	84.318	1,631 4,182 10,565		0 5,836 5,650	
Total Title II-D Grant			16,378		11,486	
Vocational Education - Carl D. Perkins Act of 1984	20-C1 2005 20-C1 2006	84.048	19,052 70,497		24,133 67,322	
Total Vocational Education - Carl D. Perkins Act of 1984			89,549		91,455	
Comprehensive School Reform Demonstration	RF-CC 2005 RF-CC 2006 RF-S3 2004	84.332	16,409 647 35,859		10,253 0 51,139	
Total Comprehensive School Reform Demonstration			52,915		61,392	

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Class Size Reduction Program	CR-S1 2002	84.340	-16,325			0
Title VI-B Rural and Low Income	RU-S1 2005	84.358	2,821		10,635	
	RU-S1 2006		95,049		89,273	
Total Title VI-B Rural and Low Income			<u>97,870</u>		<u>99,908</u>	
School Maintenance and Operation Assistance (Impact Aid / SAFA)		84.041	3,261		1,641	
Total Department of Education			<u>2,441,416</u>		<u>2,544,759</u>	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Jobs and Family Services: passed:</i>						
<i>through Ohio Department of Mental Retardation and Development Disabilities:</i>						
Community Alternative Funding System		93.778	32,793		48,272	
Total Federal Receipts and Expenditures			<u>\$3,151,687</u>	<u>\$92,985</u>	<u>\$3,270,509</u>	<u>\$92,985</u>

The accompanying notes to this schedule are an integral part of this schedule.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2006**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

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Mary Taylor, CPA

Auditor of State

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, Ohio 43920

To the Board of Education:

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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 30, 2008. We noted the District is experiencing certain financial difficulties and has been declared in fiscal emergency pursuant to Ohio Revised Code Section 3316.03 B(5). 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated May 30, 2008.

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 grant 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated May 30, 2008.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 30, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings and questioned costs 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 each 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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.

As described in finding 2006-001 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs/cost principles applying to its Title I program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above applying to its major federal program for the year ended June 30, 2006.

In a separate letter to the District's management dated May 30, 2008, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

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Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and question costs as finding 2006-001 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2006-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

We also noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 30, 2008.

The District's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

May 30, 2008

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I (CFDA #84.010)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Non-Eligible Payroll Expenses – Allowable Costs/Cost Principles

Finding Number	2006-001
CFDA Title and Number	84.010
Federal Award Number / Year	043919-C1S1 / 2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost, Material Noncompliance, Material Weakness - \$32,562.48

2 CFR Part 225, Appendix B, subsection 8.h.(4) states where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

East Liverpool City School incurred non-eligible payroll expenses of \$20,819.54 which represents 80% of the Budgetary Clerk’s salary and \$11,742.94 in salary for the High School Alternative Teacher. The Budgetary Clerk’s entire salary was charged to Title 1, however, only 20% of her time worked related to the Title 1 program. The Alternative Teacher was exclusively for High School students and the school wide plan did not include any budget for High School students.

The School District received federal reimbursement dollars which totaled \$ 32,562.48 for employee salaries. However, no evidence was provided to us that would indicate that these reimbursements were allowable under the criteria described above.

East Liverpool City School District requested and received reimbursement for the expenses noted above that were not approved or outlined in the grant agreement.

East Liverpool City School District should develop policies and procedures to ensure, federal expenditures, which are incurred for the Title 1 grant, are allowable costs by OMB 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) and the respective grant agreement. The District should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS – (Continued)

Corrective Action Plan

The district agrees that the instructional expenditure was not allowable under the Federal Guidelines. Porvision 9 under Budget Requirements would seem to allow for expenditures of a teacher in an alternative program in a served school. However, the school eligibility list does not indicate the High School was served by Title I in the 05/06 CCIP. In addition, there is no strategy in the planning tool that directly relates to the program. This program was discontinued in the 07/08 school year.

The budgetary clerk issue is less clear. The employee in question did serve as a full time employee for the Grants Coordinator until October, 2005 when a RIF took place. This oversight happened, perhaps, because the Federal Program's Coordinator also changed and the person assigned was a grant's coordinator and principal.

Corrective action was taken in the 07/08. Only 20% of the budgetary clerk's salary has been taken from Title I.

Our Treasurer, Mr. Telzrow, has written a letter to Mr. Brian Jones of the Office of Grants Management asking for direction in correcting the non allowable funding issue for 2006.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001 - 2005-015	Unapproved Compensation for Supplemental Services	Yes	
2005-016	Revised Code Section 5705.36 (A) (2), estimated receipts exceeded actual receipts.	No	Partially corrected, repeated in the management letter
2005-017	Revised Code Section 5705.39, total appropriations exceeded total estimated revenue.	No	Partially corrected, repeated in the management letter.
2005-018	Revised Code Section 5705.41 (D), failure to encumber funds.	Yes	



Mary Taylor, CPA
Auditor of State

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
JULY 29, 2008**