

**East Liverpool City School
District**

Columbiana County, Ohio

Audited Financial Statements

For Fiscal Year Ended June 30, 2010



Dave Yost • Auditor of State

Board of Education
East Liverpool City School District
500 Maryland Ave.
East Liverpool, Ohio 43920

We have reviewed the *Independent Auditor's Report* of the East Liverpool City School District, Columbiana County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The East Liverpool City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 15, 2011

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**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**AUDITED BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

March 24, 2011

To the Board of Education
East Liverpool City School District
Columbiana County, Ohio
500 Maryland Avenue
East Liverpool, Ohio 43920

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Liverpool City School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information of the District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2011 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

East Liverpool City School District
Independent Auditor's Report
March 24, 2011
Page 2

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The management's discussion and analysis of the District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities increased \$3,176,934, which represents a 6.6% increase from 2009.
- General revenues accounted for \$21,315,574 in revenue or 74.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$7,207,119 or 25.3% of total revenues of \$28,522,693.
- The District had \$25,345,759 in expenses related to governmental activities; \$7,207,119 of these expenses was offset by program specific charges for services, grants or contributions and interest. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,315,574 helped to provide for these programs.
- The District's major governmental funds include the general fund, bond retirement fund, and the classroom facilities fund. The general fund had \$22,762,238 in revenues and other financing sources and \$20,641,514 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance increased by \$2,120,724 from \$2,289,053 to \$4,409,777.
- The classroom facilities fund had \$971,664 in revenues and other financing sources and \$13,906,603 in expenditures and other financing uses. During fiscal year 2010, the classroom facilities fund's fund balance decreased by \$12,934,939 from \$14,834,085 to \$1,899,146.
- The bond retirement fund had \$491,750 in revenues and other financing sources and \$8,384 in expenditures and other financing uses. During fiscal year 2010, the bond retirement fund's fund balance increased by \$483,366 from \$2,747,186 to \$3,230,552.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, bond retirement fund, and the classroom facilities fund are by far the most significant funds and the only governmental funds reported as major funds.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and statement of activities answers this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and statement of activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund, and the classroom facilities fund.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 21.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements begin on page 26 of this report.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The following table provides a summary of the District's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009 Restated
	<u>2010</u>	<u>2009 Restated</u>
<u>Assets</u>		
Current and other assets	\$ 22,300,752	\$ 37,244,435
Capital assets, net	<u>46,562,215</u>	<u>30,042,510</u>
Total assets	<u>68,862,967</u>	<u>67,286,945</u>
<u>Liabilities</u>		
Current liabilities	7,347,217	9,277,831
Long-term liabilities	<u>10,106,834</u>	<u>9,777,132</u>
Total liabilities	<u>17,454,051</u>	<u>19,054,963</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	36,025,115	4,535,382
Restricted	9,012,391	31,582,411
Unrestricted (Deficit)	<u>6,371,410</u>	<u>12,114,189</u>
Total net assets	<u>\$ 51,408,916</u>	<u>\$ 48,231,982</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$51,408,916. Of this total, \$6,371,410 is unrestricted in use.

At year-end, capital assets represented 67.6% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$36,025,115. These capital assets are used to provide services to the students and are not available for future spending. Although the 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 capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$9,012,391, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,371,410 may be used to meet the District's ongoing obligations to the students and creditors.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The following table shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities	
	2010	2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,246,059	\$ 981,292
Operating grants and contributions	5,961,060	6,075,502
General revenues:		
Property taxes	4,216,298	5,576,668
Grants and entitlements	17,586,420	16,127,295
Investment earnings	87,925	445,627
Payment in Lieu of Taxes	0	1,247
Gain/(Loss) on Sale of Capital Assets	(642,426)	0
Other	67,357	68,553
Total revenues	28,522,693	29,276,184
Program expenses:		
Instruction:		
Regular	13,078,013	12,622,873
Special	2,900,919	2,513,366
Vocational	1,086,376	797,638
Adult education	6,858	6,668
Student Intervention	7,558	114,732
Other	126,435	189,924
Support services:		
Pupil	968,327	909,395
Instructional staff	1,535,934	1,176,493
Board of education	213,464	190,352
Administration	1,694,678	1,487,434
Fiscal	496,448	587,900
Business	18,170	74,629
Operations and maintenance	671,319	2,414,604
Pupil transportation	952,103	1,019,641
Central	39,964	19,677
Food service operations	1,021,161	841,724
Operations of non-instructional services	107,982	188,366
Extracurricular activities	401,823	370,998
Interest and fiscal charges	18,227	18,528
Total expenses	25,345,759	25,544,942
Change in net assets	\$ 3,176,934	\$ 3,731,242

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Governmental Activities

Net assets of the District's governmental activities increased \$3,176,934. Total governmental expenses of \$25,345,759 were offset by program revenues of \$7,207,119 and general revenues of \$21,315,574. Program revenues supported 28.4% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 74.7% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$17,206,159 or 67.9% of total governmental expenses for fiscal year 2010.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 13,078,013	\$ 10,388,349	\$ 12,622,873	\$ 10,061,056
Special	2,900,919	2,443,223	2,513,366	1,397,562
Vocational	1,086,376	1,008,836	797,638	714,155
Adult education	6,858	6,858	6,668	6,668
Student Intervention	7,558	7,558	114,732	102,066
Other	126,435	100,623	189,924	189,924
Support services:				
Pupil	968,327	629,923	909,395	(39,207)
Instructional staff	1,535,934	382,861	1,176,493	1,144,724
Board of education	213,464	208,807	190,352	188,282
Administration	1,694,678	1,407,477	1,487,434	596,686
Fiscal	496,448	496,448	587,900	566,028
Business	18,170	18,170	74,629	74,629
Operations and maintenance	671,319	110,855	2,414,604	2,414,604
Pupil transportation	952,103	952,103	1,019,641	1,019,641
Central	39,964	(2,149)	19,677	19,677
Food service operations	1,021,161	(56,502)	841,724	(104,535)
Operations of non-instructional services	107,982	(105,498)	188,366	(106,209)
Extracurricular activities	401,823	284,470	370,998	223,869
Interest and fiscal charges	18,227	(143,772)	18,528	18,528
Total expenses	<u>\$ 25,345,759</u>	<u>\$ 18,138,640</u>	<u>\$ 25,544,942</u>	<u>\$ 18,488,148</u>

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The dependence upon tax and other general revenues for governmental activities is apparent, 80.7% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.7%.

The District's Funds

The District's governmental funds reported a combined fund balance of \$12,199,287, which is lower than last year's total of \$24,434,291. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Restated Fund Balance June 30, 2009	Increase/ (Decrease)	Percentage Change
General	\$ 4,409,777	\$ 2,289,053	\$ 2,120,724	92.65 %
Bond Retirement	3,230,552	2,747,186	483,366	17.59 %
Classroom Facilities	1,899,146	14,834,085	(12,934,939)	(87.20) %
Other Governmental	2,659,812	4,563,967	(1,904,155)	(41.72) %
Total	<u>\$ 12,199,287</u>	<u>\$ 24,434,291</u>	<u>\$ (12,235,004)</u>	<u>(50.07) %</u>

General Fund

The District's general fund balance increased \$2,120,724. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2010 Amount	2009 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 4,027,127	\$ 3,935,735	\$ 91,392	2.32 %
Tuition	658,922	625,329	33,593	5.37 %
Earnings on investments	57,228	105,098	(47,870)	(45.55) %
Intergovernmental	17,953,493	17,361,043	592,450	3.41 %
Other revenues	57,463	62,216	(4,753)	(7.64) %
Total	<u>\$ 22,754,233</u>	<u>\$ 22,089,421</u>	<u>\$ 664,812</u>	3.01 %
<u>Expenditures</u>				
Instruction	\$ 13,843,401	\$ 14,040,206	\$ (196,805)	(1.40) %
Support services	6,428,034	6,710,264	(282,230)	(4.21) %
Non-instructional services	4,672	355	4,317	1,216.06 %
Extracurricular activities	212,553	204,070	8,483	4.16 %
Facilities acquisition and construction	-	9,940	(9,940)	(100.00) %
Debt service	110,354	45,871	64,483	140.57 %
Total	<u>\$ 20,599,014</u>	<u>\$ 21,010,706</u>	<u>\$ (411,692)</u>	(1.96) %

Overall, revenues and expenditures remained relatively stable for the general fund, based on operations reported on the modified basis of accounting.

The classroom facilities fund had \$971,664 in revenues and \$13,906,603 in expenditures. During fiscal 2010, the classroom facilities fund's fund balance decreased \$12,934,939 from \$14,834,085 to \$1,899,146. The decrease in fund balance is due to expenditures for the District's construction project outpacing revenues from the Ohio School Facilities Commission.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The bond retirement fund had \$491,750 in revenues and \$8,384 in expenditures. During fiscal 2010, the bond retirement fund's fund balance increased \$483,366 from \$2,747,186 to \$3,230,552. The increase in fund balance is due to collection of taxes, but no debt payments due.

General Fund Budgeting Highlights

The 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 budgeted fund is the general fund.

During the course of fiscal year 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$22,655,088 and final budgeted revenues and other financing sources were \$22,431,577. Actual revenues and other financing sources for fiscal year 2010 were \$22,435,492. This represents a \$3,915 increase from original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$22,306,814 were decreased \$6,689 to \$22,300,125 in the final budget. The actual budget basis expenditures for fiscal year 2010 totaled \$20,601,717, which was a decrease of \$1,698,408 from final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010 the District had \$46,562,215 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2010	Restated 2009
Land	\$ 42,269	\$ 42,269
Land improvements	1,572,496	1,671,810
Building and improvements	42,149,618	9,873,938
Furniture and equipment	2,194,814	2,221,850
Vehicles	541,943	538,190
Construction in progress	61,075	15,694,453
	\$ 46,562,215	\$ 30,042,510

See Note 8 to the basic financial statements for additional information on the District's capital assets.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Debt Administration

At June 30, 2010, the District had \$7,900,000 in school improvement bonds and \$373,262 in lease obligations outstanding. Of this total, \$120,114 is due within one year and \$8,153,148 is due in greater than one year. The following table summarizes the bonds, loans and leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2010	Governmental Activities 2009
School improvement bonds	\$ 7,900,000	\$ 7,900,000
Lease obligations	373,262	471,446
Total	<u>\$ 8,273,262</u>	<u>\$ 8,371,446</u>

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The East Liverpool City School District is financially responsible for educating approximately 2,600 students, grades PK-12. During Fiscal Year 2009-2010, 2,240 of those students were educated at the District's five schools housed in four physical plants. The remaining students were educated either at other school districts in the State through open enrollment or at community schools in accordance with State law. At the beginning of the 2010-2011 school year, the District saw a modest increase in enrollment, the first in many years. This slight reversal of a long-term trend is attributable to the opening of renovated school facilities and its gradually improving academic standing.

As of the 2009-2010 school year, the District was designated as a District in Continuous Improvement by the Ohio Department of Education. In order to improve its academic standing, the District is actively involved in the Ohio Improvement Process. This involves extensive training of District faculty and administrative personnel in helping students improve their academic achievement. One point of pride for the District is that East Liverpool High School has a ninety-nine percent (99%) graduation rate. In order to graduate from any Ohio high school, students must meet all local graduation requirements and pass all parts of the Ohio Graduation Test.

East Liverpool is located in southeastern Columbiana County and is one of the major cities in what the U.S. Census Bureau defines as the East Liverpool-Salem Micropolitan Area. The District comprises approximately 14 square miles in the City of East Liverpool, Liverpool Township and a small portion of St. Clair Township. Columbiana County is one of 22 designated in Ohio's Appalachian region by the federal government. This is indicative of the region's socio-economic challenges. Public and non-profit employers, including the District and East Liverpool City Hospital, are the major employers within the School District.

Approximately seventy-five percent (75%) of the District's students are eligible for free or reduced price meals made available through the National School Lunch Program. As a result of the presence of poverty in the East Liverpool area, the District is a major recipient of federal funds on a per-pupil basis. The United States Department of Justice identified the District among 158 major recipients of federal funds in Ohio under the American Recovery and Reinvestment Act.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Socio-economic issues in the community cause the District to confront several educational issues. Approximately twenty-five percent (25%) of East Liverpool students qualify for special education services. This compares to an average of ten percent (10%) for Ohio's school age population. The District also commits substantial resources to pre-school, after-school programs, and other efforts to help students succeed academically.

Local financial resources are limited. On a per-pupil basis, the taxable value of real property in the East Liverpool City School District is the 18th lowest of 614 school districts in the State of Ohio. This reflects the collapse of the pottery industry in the United States, which was once the major private sector employer in the region. An area that once boasted 60 potteries is down to one major pottery, which is located outside the corporate boundaries of the School District. Other manufacturing employment in the area has also decreased substantially. Somewhat offsetting these economic challenges is the ability of local residents to commute to employment in other nearby metropolitan areas, including Youngstown, Ohio; Steubenville, Ohio; Wheeling, W.Va.; and Pittsburgh, Pa. The District is located approximately 25 miles from Pittsburgh International Airport. Its southern boundary is the Ohio River. Major rail lines and controlled-access roadways also serve the community.

The population of the East Liverpool area has been in decline for four decades. The City of East Liverpool had approximately 26,000 residents in 1970, according to the U.S. Census Bureau. Census figures suggest the population has fallen to about 12,000 in 2010. A significant amount of that population loss is the result of the out-migration of people from the East Liverpool area. Perhaps as a result of the recent recession, this migration trend has subsided somewhat. The East Liverpool area is one of the most affordable areas in the nation to live in terms of housing costs. Also, the nearby Pittsburgh metropolitan area has weathered the economic downturn better than the majority of major American communities. This is due to Pittsburgh's concentration of educational institutions, health care centers and technology companies. The Pittsburgh job market is accessible to East Liverpool residents.

In terms of school funding, the East Liverpool City School District is heavily dependent on State financial support. Approximately eighty percent (80%) of the funds for day-to-day school operations are provided by the State of Ohio. This funding is subject to the biennial appropriation of the Ohio General Assembly. At this time, the State of Ohio is facing a projected \$8 billion shortfall in funding to maintain current programs for the biennial budget period running from July 1, 2011, to June 30, 2013. Legislative leaders have suggested that school funding could be significantly reduced for the coming biennial budget period. A ten percent (10%) funding reduction would cost the District about \$1.7 million per school year. The District has an operating budget of approximately \$23 million.

The School District currently has strong reserves to withstand any possible funding cuts. As of June 30, 2010, cash reserves exceeded \$6 million. This reserve amounts to a 90-day cushion in operating cash reserves. The current Five-Year Financial Forecast projects declining cash reserves during the forecast period. This trend will be accelerated if the heralded State budget cuts come close to reality.

The current cash position of the School District is in stark contrast to recent years. On December 18, 2003, the District was placed in fiscal emergency by the State of Ohio as a result of having insufficient resources to pay day-to-day operating costs. The District was released from Fiscal Emergency on March 24, 2009, after a period of five years and three months. In order to gain release from Fiscal Emergency, the District substantially cut operating costs and made painful permanent staff reductions. These reductions included the elimination of nearly 40 full-time personnel; approximately seventy-five (75%) of those positions eliminated were teaching positions.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The District currently operates five school units: LaCroft Elementary (grades K-4), North Elementary (grades K-4), Westgate Elementary (grades 5-6), East Liverpool Junior High School (grades 7-8) and East Liverpool High School (grades 9-12). All facilities, except Westgate Elementary, were renovated under the auspices of the Ohio School Facilities Commission (OSFC). As of the start of the 2010-2011 school year, construction was at the point of substantial completion and the renovated facilities were occupied by faculty and students. At this writing, the District is working on the future of the Westgate facility. Enrollment at the start of the 2010-2011 year was nearly 300 more students than a study commissioned by the OSFC projected it would be. Further, the Westgate facility has sufficient space to provide for the relocation of the Administrative Office. This would permit the closure of the current facility, which would reduce District operating costs. Resolution of these matters is expected during the 2010-2011 school year. Additionally, the District owns and operates a stadium facility, Monroe Patterson Field, and a bus repair center.

The facilities project was authorized when School District voters approved a 3.2-mill bond issue in May 2002. Eighty-seven percent (87%) of eligible project costs were to be paid by the State of Ohio and thirteen percent (13%) through proceeds of the bond issue. In the eight years since voter approval, the initial project was twice reduced in scope. The initial project was to have been \$59,751,022 with \$7,769,000 funded through the local bond issue and \$51,982,022 funded by the OSFC. Current project funding totals \$43,648,423 with \$5,675,294 funded by the local community and \$37,473,129 funded by the State of Ohio.

With substantial completion of these projects at hand, the District's capital assets, including property physical plant and equipment total approximately \$63 million.

Contacting the 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 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 to Mr. Todd Puster, District Treasurer at 500 Maryland Avenue, East Liverpool, Ohio 43920 or telephone (330) 385-7132.

East Liverpool City School District

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 11,924,636
Cash and Cash Equivalents with Fiscal Agents	4,170,392
Receivables:	
Accounts	3,853
Taxes	4,626,589
Intergovernmental	1,512,393
Accrued Interest	20,496
Deferred Charges	42,393
Nondepreciable Capital Assets	103,344
Depreciable Capital Assets (Net)	46,458,871
<i>Total Assets</i>	<u>68,862,967</u>
Liabilities	
Accounts Payable	205,552
Contracts Payable	509,247
Accrued Wages and Benefits	1,818,495
Accrued Vacation Leave Payable	123,876
Matured Compensated Absences Payable	247,814
Intergovernmental Payable	685,604
Deferred Revenue	3,399,731
Claims Payable	356,898
Long Term Liabilities:	
Due Within One Year	526,053
Due In More Than One Year	9,580,781
<i>Total Liabilities</i>	<u>17,454,051</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	36,025,115
Restricted for:	
Debt Service	3,277,133
Capital Projects	2,762,715
Other Purposes	2,972,543
Unrestricted	6,371,410
<i>Total Net Assets</i>	<u>\$ 51,408,916</u>

See accompanying notes to the basic financial statements.

East Liverpool City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 13,078,013	\$ 659,112	\$ 2,030,552	\$ (10,388,349)
Special	2,900,919	0	457,696	(2,443,223)
Vocational	1,086,376	0	77,540	(1,008,836)
Adult Education	6,858	0	0	(6,858)
Student Intervention	7,558	0	0	(7,558)
Other	126,435	0	25,812	(100,623)
Support Services:				
Pupils	968,327	0	338,404	(629,923)
Instructional Staff	1,535,934	0	1,153,073	(382,861)
Board of Education	213,464	0	4,657	(208,807)
Administration	1,694,678	21,868	265,333	(1,407,477)
Fiscal	496,448	0	0	(496,448)
Business	18,170	0	0	(18,170)
Operation and Maintenance of Plant	671,319	0	560,464	(110,855)
Pupil Transportation	952,103	0	0	(952,103)
Central	39,964	0	42,113	2,149
Operation of Non-Instructional Services	107,982	0	213,480	105,498
Food Service Operations	1,021,161	300,500	777,163	56,502
Extracurricular Activities	401,823	102,580	14,773	(284,470)
Interest and Fiscal Charges	18,227	161,999	0	143,772
<i>Total Governmental Activities</i>	<u>\$ 25,345,759</u>	<u>\$ 1,246,059</u>	<u>\$ 5,961,060</u>	<u>(18,138,640)</u>
General Revenues				
Property Taxes Levied for:				
				3,781,621
				248,011
				186,666
Grants and Entitlements not				
				17,586,420
				87,925
				(642,426)
				67,357
				<u>21,315,574</u>
				<i>Change in Net Assets</i>
				3,176,934
				<i>Net Assets Beginning of Year</i>
				(Restated, See Note 18)
				<u>48,231,982</u>
				<i>Net Assets End of Year</i>
				<u>\$ 51,408,916</u>

See accompanying notes to the basic financial statements.

East Liverpool City School District
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 6,283,939	\$ 165,895	\$ 2,323,221	\$ 3,151,581	\$ 11,924,636
Cash and Investments with Fiscal Agent	0	3,036,468	0	0	3,036,468
Receivables:					
Accounts	3,663	0	0	190	3,853
Taxes	4,279,933	276,491	0	70,165	4,626,589
Interfund	76,208	0	0	0	76,208
Intergovernmental	37,397	0	0	1,474,996	1,512,393
Accrued Interest	20,496	0	0	0	20,496
<i>Total Assets</i>	<u>\$ 10,701,636</u>	<u>\$ 3,478,854</u>	<u>\$ 2,323,221</u>	<u>\$ 4,696,932</u>	<u>\$ 21,200,643</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 81,586	\$ 0	\$ 69,218	\$ 54,748	\$ 205,552
Contracts Payable	0	0	354,857	154,390	509,247
Accrued Wages and Benefits	1,496,846	0	0	321,649	1,818,495
Matured Compensated Absences Payable	247,814	0	0	0	247,814
Interfund Payable	0	0	0	76,208	76,208
Intergovernmental Payable	579,101	0	0	106,503	685,604
Deferred Revenue	3,886,512	248,302	0	1,323,622	5,458,436
<i>Total Liabilities</i>	<u>6,291,859</u>	<u>248,302</u>	<u>424,075</u>	<u>2,037,120</u>	<u>9,001,356</u>
Fund Balances					
Reserved for Encumbrances	137,246	0	978,645	609,686	1,725,577
Reserved for Tax Revenue Unavailable for Appropriation	418,800	28,189	0	6,944	453,933
Unreserved, Undesignated, Reported in:					
General Fund	3,853,731	0	0	0	3,853,731
Special Revenue Funds	0	0	0	1,291,578	1,291,578
Capital Projects Funds	0	0	920,501	751,604	1,672,105
Debt Service Fund	0	3,202,363	0	0	3,202,363
<i>Total Fund Balances</i>	<u>4,409,777</u>	<u>3,230,552</u>	<u>1,899,146</u>	<u>2,659,812</u>	<u>12,199,287</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 10,701,636</u>	<u>\$ 3,478,854</u>	<u>\$ 2,323,221</u>	<u>\$ 4,696,932</u>	<u>\$ 21,200,643</u>

See accompanying notes to the basic financial statements.

East Liverpool City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2010*

Total Governmental Fund Balances	\$	12,199,287
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		46,562,215
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Grants	\$ 1,255,400	
SERS Reimbursement	30,380	
Delinquent Property Taxes	772,925	2,058,705
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
QZAB Bonds	7,900,000	
Capital Lease Obligation	373,262	(8,273,262)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		777,026
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Deferred Charges-Issuance Costs	42,393	
Compensated Absences	(1,233,572)	
Early Retirement Incentive Payable	(600,000)	
Accrued Vacation Payable	(123,876)	(1,915,055)
<i>Net Assets of Governmental Activities</i>	\$	51,408,916

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, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 4,027,127	\$ 261,137	\$ 0	\$ 65,974	\$ 4,354,238
Intergovernmental	17,953,493	68,614	932,635	5,429,138	24,383,880
Investment Income	57,228	161,999	39,029	19,098	277,354
Tuition and Fees	658,922	0	0	0	658,922
Extracurricular Activities	0	0	0	124,449	124,449
Charges for Services	0	0	0	230,625	230,625
Rentals	4,210	0	0	0	4,210
Gifts and Donations	300	0	0	20,414	20,714
Miscellaneous	52,953	0	0	3,985	56,938
<i>Total Revenues</i>	<u>22,754,233</u>	<u>491,750</u>	<u>971,664</u>	<u>5,893,683</u>	<u>30,111,330</u>
Expenditures					
Current:					
Instruction:					
Regular	10,312,964	0	0	2,051,536	12,364,500
Special	2,414,995	0	0	510,317	2,925,312
Vocational	983,887	0	0	84,253	1,068,140
Adult Education	0	0	0	6,861	6,861
Student Intervention	5,120	0	0	2,435	7,555
Other	126,435	0	0	0	126,435
Support Services:					
Pupils	759,312	0	0	314,114	1,073,426
Instructional Staff	531,215	0	0	1,012,331	1,543,546
Board of Education	213,623	0	0	0	213,623
Administration	1,232,244	0	0	292,231	1,524,475
Fiscal	483,215	8,384	122	1,710	493,431
Business	17,280	0	458	0	17,738
Operation and Maintenance of Plant	2,244,561	0	229,877	562,593	3,037,031
Pupil Transportation	946,584	0	0	8,957	955,541
Central	0	0	0	39,964	39,964
Operation of Non-Instructional Services	4,672	0	0	108,021	112,693
Food Service Operations	0	0	0	1,133,773	1,133,773
Extracurricular Activities	212,553	0	0	188,202	400,755
Capital Outlay	0	0	13,676,146	1,523,040	15,199,186
Debt Service:					
Principal Retirement	98,184	0	0	0	98,184
Interest and Fiscal Charges	12,170	0	0	0	12,170
<i>Total Expenditures</i>	<u>20,599,014</u>	<u>8,384</u>	<u>13,906,603</u>	<u>7,840,338</u>	<u>42,354,339</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,155,219	483,366	(12,934,939)	(1,946,655)	(12,243,009)
Other Financing Sources (Uses)					
Transfers In	0	0	0	45,199	45,199
Proceeds from Sale of Capital Assets	8,005	0	0	0	8,005
Transfers Out	(42,500)	0	0	(2,699)	(45,199)
<i>Total Financing Sources and (Uses)</i>	<u>(34,495)</u>	<u>0</u>	<u>0</u>	<u>42,500</u>	<u>8,005</u>
<i>Net Change in Fund Balance</i>	2,120,724	483,366	(12,934,939)	(1,904,155)	(12,235,004)
<i>Fund Balance at Beginning of Year , (Restated, See Note 18)</i>	<u>2,289,053</u>	<u>2,747,186</u>	<u>14,834,085</u>	<u>4,563,967</u>	<u>24,434,291</u>
<i>Fund Balance at End of Year</i>	<u>\$ 4,409,777</u>	<u>\$ 3,230,552</u>	<u>\$ 1,899,146</u>	<u>\$ 2,659,812</u>	<u>\$ 12,199,287</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 to the Statement of Activities
For the Fiscal Year Ended June 30, 2010*

Net Change in Fund Balances - Total Governmental Funds	\$	(12,235,004)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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 the additions exceeded depreciation in the current period.		
Capital Asset Additions	\$ 17,901,322	
Current Year Depreciation	<u>(739,191)</u>	17,162,131
 Net effect of transactions involving the disposal of capital assets are not reflected in the funds		
		(642,426)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Grants	663,072	
SERS Reimbursement	30,380	
Ohio School Facilities Commission	(1,379,026)	
Delinquent Property Taxes	<u>(262,255)</u>	(947,829)
 Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Capital Lease		98,184
 Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Compensated Absences	127,114	
Early Retirement Incentive Payable	(555,000)	
Accrued Vacation Payable	<u>(4,314)</u>	(432,200)
 The issuance of capital leases and general obligation bonds and related activities are expenditures and other financing sources and uses in the governmental funds, but these but these transactions are reflected in the statement of net assets as long-term assets and liabilities.		
Deferred Charges- Amortization		(6,057)
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service fund is reported with governmental activities.		
		<u>180,135</u>
Change in Net Assets of Governmental Activities	\$	<u>3,176,934</u>

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, 2010*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 3,624,748	\$ 3,588,987	\$ 3,740,943	\$ 151,956
Intergovernmental	17,947,521	17,770,456	17,883,324	112,868
Investment Income	149,746	148,268	49,394	(98,874)
Tuition and Fees	703,369	696,429	661,731	(34,698)
Rent	8,985	8,896	4,210	(4,686)
Gifts and Donations	3,993	3,954	300	(3,654)
Miscellaneous	107,911	106,846	51,247	(55,599)
<i>Total Revenues</i>	<u>22,546,273</u>	<u>22,323,836</u>	<u>22,391,149</u>	<u>67,313</u>
Expenditures:				
Current:				
Instruction	14,101,316	14,201,436	13,595,415	606,021
Support Services:				
Pupils	766,730	761,749	714,139	47,610
Instructional Staff	671,756	655,061	536,612	118,449
Board of Education	272,329	276,479	204,061	72,418
Administration	1,421,604	1,417,811	1,259,863	157,948
Fiscal	580,566	564,775	502,952	61,823
Business	114,621	112,497	75,523	36,974
Operation and Maintenance of Plant	2,598,184	2,572,405	2,324,974	247,431
Pupil Transportation	1,243,650	1,226,824	1,069,581	157,243
Operation of Non-Instructional Services	4,834	5,010	5,010	0
Extracurricular Activities	250,906	250,922	215,981	34,941
Capital Outlay	49,230	65,145	23,652	41,493
<i>Total Expenditures</i>	<u>22,075,726</u>	<u>22,110,114</u>	<u>20,527,763</u>	<u>1,582,351</u>
Excess of Revenues Over (Under) Expenditures	470,547	213,722	1,863,386	1,649,664
Other Financing Sources (Uses):				
Transfers In	3,993	3,954	3,511	(443)
Refund of Prior Year Expenditures	0	0	4,630	4,630
Proceeds from Sale of Capital Assets	4,992	4,942	8,005	3,063
Advance In	99,830	98,845	28,197	(70,648)
Advance Out	(101,888)	(100,000)	(27,943)	72,057
Transfers Out	(129,200)	(90,011)	(46,011)	44,000
<i>Total Other Financing Sources (Uses)</i>	<u>(122,273)</u>	<u>(82,270)</u>	<u>(29,611)</u>	<u>52,659</u>
<i>Net Change in Fund Balance</i>	348,274	131,452	1,833,775	1,702,323
<i>Fund Balance at Beginning of Year</i>	3,740,001	3,740,001	3,740,001	0
Prior Year Encumbrances Appropriated	469,769	469,769	469,769	0
<i>Fund Balance at End of Year</i>	<u>\$ 4,558,044</u>	<u>\$ 4,341,222</u>	<u>\$ 6,043,545</u>	<u>\$ 1,702,323</u>

See accompanying notes to the basic financial statements.

East Liverpool City School District

Statement of Net Assets

Proprietary Fund

June 30, 2010

	Governmental Activities Internal Service Fund
Assets	
Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$ 1,133,924
<i>Total Assets</i>	<u>1,133,924</u>
Liabilities	
Current Liabilities:	
Claims Payable	356,898
<i>Total Current Liabilities</i>	<u>356,898</u>
Net Assets	
Unrestricted	<u>777,026</u>
<i>Total Net Assets</i>	<u><u>\$ 777,026</u></u>

See accompanying notes to the basic financial statements.

East Liverpool City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2010

	Governmental Activities - Internal Service Fund
<hr/>	
Operating Revenues:	
Charges for services	\$ 3,612,383
<i>Total Operating Revenues</i>	<u>3,612,383</u>
Operating Expenses:	
Purchased services	415,444
Claims	<u>3,040,797</u>
<i>Total Operating Expenses</i>	<u>3,456,241</u>
<i>Operating Income (Loss)</i>	156,142
Non-Operating Revenues (Expenses)	
Interest	<u>23,993</u>
<i>Change in Net Assets</i>	180,135
<i>Net Assets (Deficit) Beginning of Year</i>	<u>596,891</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$ 777,026</u></u>

See accompanying notes to the basic financial statements.

East Liverpool City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2010

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities:	
Cash Paid for Goods and Services	\$ 3,612,383
Cash Paid for Administrative Costs	(415,444)
Cash Paid for Claims	(2,960,465)
<i>Net Cash Provided By (Used For) Operating Activities</i>	236,474
Cash Flows From Investing Activities:	
Interest on Investments	23,993
<i>Net Cash Provided By (Used For) Investing Activities</i>	23,993
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	260,467
<i>Cash and Cash Equivalents with Fiscal Agent at Beginning of Year</i>	873,457
<i>Cash and Cash Equivalents with Fiscal Agent at End of Year</i>	\$ 1,133,924
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	\$ 156,142
Adjustments:	
Increase (Decrease) in Liabilities	
Claims Payable	80,332
<i>Total Adjustments</i>	80,332
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$ 236,474

See accompanying notes to the basic financial statements.

East Liverpool City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 11,338	\$ 43,501
<i>Total Assets</i>	11,338	\$ 43,501
Liabilities		
Accounts Payable	0	\$ 532
Intergovernmental Payable	0	14
Due to Students	0	42,955
<i>Total Liabilities</i>	0	\$ 43,501
Net Assets		
Held in Trust for Scholarships	11,338	
<i>Total Net Assets</i>	\$ 11,338	

See accompanying notes to the basic financial statements.

East Liverpool City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Ended June 30, 2010

	<u>Private Purpose Trust</u>
Additions	
Interest	\$ 18
Deductions	<u>0</u>
<i>Change in Net Assets</i>	18
<i>Net Assets Beginning of Year</i>	<u>11,320</u>
<i>Net Assets End of Year</i>	<u><u>\$ 11,338</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, 2010

NOTE 1 - DESCRIPTION OF THE DISTRICT

East Liverpool City School District (the "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 District operates under a locally-elected five member Board and provides educational services as mandated by State and Federal agencies. It is staffed by 172 non-certified employees, 97 certified full-time teaching personnel and 22 administrative employees who provide services to 2,630 students and other community members. The District currently operates four instructional buildings, one administrative building and one bus garage.

The District was established in 1864 through the consolidation of existing land areas and Districts. The 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

The District's significant accounting policies are described below.

A. 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 District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the 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 District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District has no component units.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The following activities are included within the reporting entity:

Non-Public Schools

Within the 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 District, as directed by the parochial schools. These transactions are reported in a special revenue fund and as a governmental activity of the District.

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Education Service System (ACCESS)

Area Cooperative Education Service System (ACCESS) is a computer network which provides data services to twenty-three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge. 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 of ACCESS revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo, Suite 105, Youngstown, Ohio 44512. During the year ended June 30, 2010, the District paid \$28,249 to ACCESS for basic service charges.

Columbiana County Career and Technology Center

The Columbiana County Career and Technology Center (Career Center) is a jointly governed organization to provide for the vocational and special education needs of the students of eight participating school districts. The Career Center Board of Education members are appointed by the local Boards of Education from one of its elected members. The Career Center Board of Education exercises total control over its operations, including budgeting, appropriating, contracting, and designating management. All revenues are generated from tax levies, State funding and fees. Financial information can be obtained by writing to the Columbiana County Career and Technology Center, 9364 State Route 45, Lisbon, Ohio 44432.

The District also participates in a claims servicing pool, Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self Insurance Plan, which is presented in Note 19.

B. Fund Accounting

The 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.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 following are the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The bond retirement fund provides for retirement of bonds and notes.

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for food service operations; (c) for long-term debt principal and interest payments; and (d) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has the following proprietary fund type:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for a self-insurance program for employee healthcare and prescription drug benefits.

FIDUCIARY FUNDS

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 (i.e., revenues and other financing sources) and uses (i.e., 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. Agency funds do not report a measurement focus as they do not report operations.

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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arise 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, 2010, but which were levied to finance fiscal year 2011 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the fund financial statements as expenditures with a like amount reported as intergovernmental revenue.

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. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at fund, function and object level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget: Prior to January 15, the Superintendent and the Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Columbiana County Budget Commission for rate determination.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Estimated Resources: Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. On or before July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or before July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the original and final amended certificates of estimated resources issued during fiscal year 2010.

Appropriations: Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent certificate of estimated resources. Supplemental appropriations were legally enacted during fiscal year 2010; however, none of the amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds consistent with statutory provisions.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations: At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in various bank accounts. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

During fiscal year 2010, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$57,228, which includes \$53,433 assigned from other funds.

The District participates in the OME-RESA insurance consortium for self-insurance. These monies are held separate from the District's various bank accounts. The Jefferson County Educational Service Center serves as the fiscal agent for the insurance company.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the basic financial statements as "equity in pooled cash and cash equivalent". Investments with an initial maturity of more than three months are reported as "investments".

An analysis of the District's investment account at year-end is provided in Note 4.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The 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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15 - 40 years
Building improvements	25 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

H. Interfund Balances

Transfers between governmental activities on the government-wide statements are eliminated. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented on the financial statements.

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.

I. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation absences 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 District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is an estimate based on the District’s past experience of making termination payments for sick leave.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. 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 judgments and compensated absences 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.

K. Fund Balance Reserves and Designations

The District reserves those portions of fund balance 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 balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

L. Net Assets

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

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

M. 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.

N. Unamortized Bond Issuance Costs

On government-wide financial statements, bonds issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the government-wide financial statements.

On the governmental fund financial statements, bond issuance costs are recognized in the current period.

O. Interfund Activity

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the proprietary fund. For the District, these revenues are charges for services self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenue and expenses not meeting these definitions are classified as nonoperating.

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. Neither type of transaction occurred during fiscal year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Implementation of New Accounting Policies

For the year ended June 30, 2010, the District has implemented GASB Statement No. 51, *“Accounting and Financial Reporting for Intangible Assets,”* GASB Statement No. 53, *“Accounting and Financial Reporting for Derivative Instruments,”* and GASB Statement No. 58, *“Accounting and Financial Reporting for Chapter 9 Bankruptcies.”*

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the District.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

Nonmajor Governmental Funds:	
Poverty Aid	\$ 6,930
IDEA - B	81,789
Vocational Education	8,789
Stimulus Fund	21,134
Drug Free School Grant	5,497
IDEA Preschool Grant	2,451
SchoolNet	7,160

The general fund is liable for any deficits in the nonmajor funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

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

A. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$9,607,478. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$6,158,907 of the District's bank balance of \$9,850,589 was exposed to custodial risk as discussed below, while \$3,691,682 was covered by the Federal Deposit Insurance Corporation (FDIC).

The District participates in the OME-RESA insurance consortium for employee benefits. The amount held at fiscal year end for the employee benefit self-insurance fund was \$1,133,924. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All uninsured deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2010, the District had the following investments and maturities:

Entity	Fair Value	Investment Maturities In Years 0-1	Percentage
STAROhio	\$ 2,371,997	\$ 2,371,997	100.00%

As of June 30, 2010, \$3,036,468 is held with a Fiscal Account in the District's name. These monies are held for the costs associated with a lease-purchase agreement for QZAB Academy Bonds

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAROhio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name.

The 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.

Concentration of Credit Risk: The District places no limit on the amount it may invest in any one issuer. See percentages above.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
General Fund	\$ 0	\$ 42,500
Other Governmental Fund:		
Athletics	42,500	0
Title II-D	2,699	0
Miscellaneous Federal Grants	0	2,699
	\$ 45,199	\$ 45,199

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers from Miscellaneous Federal Grants to Title II-D is to move the prior year carryover balance related to Title II-D. During fiscal year 2010, the State of Ohio established a new fund to record the activities related to this program.

B. Interfund loans receivable and payable consisted of the following at June 30, 2010, as reported on the fund statement:

	Interfund Receivable	Interfund Payable
General Fund	\$ 76,208	\$ 0
Nonmajor Governmental Fund:		
Food Service Operations	0	572
Athletics	0	8,461
IDEA-B	0	35,425
Vocational Educational	0	3,265
Title II-D	0	2,491
IDEA Preschool Grant	0	1,848
Improving Teacher Quality	0	3,790
Miscellaneous Federal Grants	0	13,196
SchoolNet	0	7,160
Total	\$ 76,208	\$ 76,208

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances were interfund loans which were not repaid in the current fiscal year, however expected to be repaid in the next fiscal year.

Interfund transactions between governmental funds are eliminated on the government-wide financial statements.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, on the assessed value listed as of January 1, the lien date. Assessed values for real property taxes are established by State law at 35% 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 year 2010 represents collections of calendar year 2009 taxes. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. All property is required to be revalued every six years. Public utility property taxes are assessed at 35% of true value and public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunication companies, and railroads. The tax on general business and railroad property was eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes, which became measurable as of year-end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at year-end is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance at June 30, 2010 was \$453,933 and is recognized as revenue. \$418,800 was available to the general fund, \$28,189 to the debt service fund, and \$6,944 to the classroom facilities fund.

On the 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 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 151,149,230	89.67%	\$ 149,674,800	90.40%
Public Utility	9,016,810	5.35%	15,903,690	9.60%
Tangible Personal Property	8,392,920	4.98%	0	0.00%
	<u>\$ 168,558,960</u>	<u>100.00%</u>	<u>\$ 165,578,490</u>	<u>100.00%</u>

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of property taxes, accounts (billings for user charged services and student fees), intergovernmental grants, interfund, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	Restated Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 42,269	\$ 0	\$ 0	\$ 42,269
Construction in Progress	15,694,453	17,298,450	(32,931,828)	61,075
Total Capital Assets, not being depreciated	<u>15,736,722</u>	<u>17,298,450</u>	<u>(32,931,828)</u>	<u>103,344</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	3,149,275	0	(308,399)	2,840,876
Buildings and Improvements	21,708,148	32,543,524	0	54,251,672
Furniture and Equipment	5,575,249	869,612	(2,329,296)	4,115,565
Vehicles	1,653,004	121,564	(203,348)	1,571,220
Total Capital Assets, being depreciated	<u>32,085,676</u>	<u>33,534,700</u>	<u>(2,841,043)</u>	<u>62,779,333</u>
Less Accumulated Depreciation:				
Land Improvements	(1,477,465)	(94,413)	303,498	(1,268,380)
Buildings and Improvements	(11,834,210)	(267,844)	0	(12,102,054)
Furniture and Equipment	(3,353,399)	(279,459)	1,712,107	(1,920,751)
Vehicles	(1,114,814)	(97,475)	183,012	(1,029,277)
Total Accumulated Depreciation	<u>(17,779,888)</u>	<u>(739,191)</u>	<u>2,198,617</u>	<u>(16,320,462)</u>
Total Capital Assets being depreciated, net	<u>14,305,788</u>	<u>32,795,509</u>	<u>(642,426)</u>	<u>46,458,871</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,042,510</u>	<u>\$ 50,093,959</u>	<u>\$ (33,574,254)</u>	<u>\$ 46,562,215</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The District entered into a capitalized lease for copier equipment and buses. These lease agreements meet the criteria of a capital leases as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds and in the budgetary statements. At June 30, 2010, the capital assets acquired by the capital lease obligations outstanding at fiscal year-end have been capitalized in the amount of \$575,132, which represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$98,184 paid by the general fund.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The following 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, 2010.

Year	Amount
2011	\$ 128,648
2012	97,190
2013	81,982
2014	82,507
	390,327
Less amount representing interest	17,065
Present Value of Minimum Lease Payments	\$ 373,262

NOTE 10 - LONG-TERM OBLIGATIONS

The beginning balance of long-term obligations has been restated to report the full amount of the QZAB School Improvement Bonds that were outstanding. During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding 6/30/2009	Additions	Reductions	Balance Outstanding 6/30/2010	Amounts Due in One Year
Governmental Activities:					
Bonds:					
2003 QZAB School Improvement Bonds	\$ 7,900,000	\$ 0	\$ 0	\$ 7,900,000	\$ 0
Compensated Absences	1,360,686	74,590	201,704	1,233,572	185,939
Early Retirement Incentive Payable	45,000	630,000	75,000	600,000	220,000
Capital Leases	471,446	0	98,184	373,262	120,114
Total Governmental Activities					
Long-Term Liabilities	\$ 9,777,132	\$ 704,590	\$ 374,888	\$ 10,106,834	\$ 526,053

2003 QZAB school improvement bonds: During fiscal year 2003, the District issued \$7,900,000 in general obligation permanent improvement qualified zone academy bonds (QZABs) to be used for school building renovations and improvements. The QZAB's will be paid from the bond retirement 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% 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.

The principal requirement amounts do not total \$7,900,000. The 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 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, 2010

Compensated absences and early retirement incentives: Compensated absences and early retirement incentives will be paid from the fund from which the employees' salaries are paid. Compensated absences will primarily be paid from the general fund.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for detail.

NOTE 11 - 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 258 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 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

During fiscal year 2009, the District joined OME_RESA's self-insurance plan (see Note 19) for its medical and dental insurance programs. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$50,000 per employee. The liability for unpaid claims of \$356,898 is reported in the internal service fund at June 30, 2010, in accordance with Governmental Accounting Standards Board Statement No. 10. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

	Balance <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance <u>End of Year</u>
2009	\$ 0	\$ 981,710	\$ (705,144)	\$ 276,566
2010	276,566	3,040,797	(2,960,465)	356,898

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

D. Retirement Incentive Bonus

The District Board of Education offers STRS Ohio employees' participation in a Retirement Incentive Bonus program for those employees with twenty or more years of service in the District. STRS Ohio employees who choose to accept retirement in accordance with STRS Ohio requirements receive a retirement incentive bonus payment of thirty thousand dollars. STRS Ohio employees must submit a written letter of intent to retire to the Treasurer between September 1 and February 1 of the school year in which they elect to retire. The retirement incentive payment shall be paid in three equal payments in January of consecutive years after retirement.

NOTE 12 - RISK MANAGEMENT

The 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 2010, the District contracted for various types of insurance through the Ohio School Insurance Program. Coverage provided is as follows:

Types of Coverage	Coverage Amount
Property: All Building and Contents (\$1,000 deductible)	\$ 83,565,502
Flood: Field, Building and Contents (\$25,000 deductible)	1,000,000
Inland Marine Coverage (\$1,000 deductible)	1,800,000
Crime Insurance (\$500 deductible)	25,000
Automobile (\$500 deductible)	2,000,000
Uninsured (\$500 deductible)	1,000,000
General Liability (\$1,000 deductible)	
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 District pays the State Workers Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78% of annual covered salary was the portion used to fund pension obligations. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$343,491, \$230,650, and \$227,484, respectively; 35% has been contributed for fiscal year 2010 and 100% for the fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 a member's 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% 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,178,665, \$1,164,680, and \$1,294,581, respectively; 82% has been

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$7,759 made by the District and \$53,931 made by the plan members.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, .46% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$12,364, \$105,556, and \$155,090, respectively; 35% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.77% of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$20,427, \$19,031, and \$16,391, respectively; 35% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. State Teachers Retirement System

Plan Description – The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 % of covered payroll to the Health Care Stabilization Fund. The District’s contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$90,667, \$89,591, and \$99,583, respectively; 82% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While the 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 and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures and other financing uses 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); and

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
	General
Budget Basis	\$ 1,833,775
Net Adjustment for Revenue Accruals	326,746
Net Adjustment for Expenditure Accruals	(239,028)
Encumbrances (Budget Basis)	199,231
GAAP Basis	\$ 2,120,724

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is party to legal proceedings. The 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 District.

NOTE 17 – SET-ASIDES

The 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and 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 textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Totals
Set-Aside Carryover Balance as of June 30, 2009	\$ 0	\$ 0	\$ 0
Current Year Set-Aside Requirement	328,475	328,475	656,950
Qualifying Disbursements	(379,933)	(462,300)	(842,233)
Total	\$ (51,458)	\$ (133,825)	(185,283)
Balance Carried Forward to FY 2011	\$ 0	\$ (133,825)	\$ 0
Amount to Restrict for Set Asides			\$ 0

The District had qualifying disbursements during the year that reduced the textbook reserve set-asides below zero. The extra amounts for the textbook and/or instructional materials may be used to reduce the set-aside requirement in future fiscal years. Amounts remaining at the fiscal year-end are represented by a reserve fund balance presented on the balance sheet.

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 18 – RESTATEMENT OF FUND BALANCES/NET ASSETS

A. Cash Basis Fund Balances

Fund balances have been restated at July 1, 2009, to account for the correction of revenues and expenses recorded in the incorrect funds. The adjustments had the following effect on cash basis fund balances as previously reported:

	General Fund	Other Governmental Funds
Beginning fund balances, June 30, 2009	\$ 3,423,876	\$ 5,539,548
Adjustments:		
Intergovernmental revenue	394,924	(394,924)
Support Services: Administration	(78,799)	78,799
Beginning fund balances, July 1, 2009	<u>\$ 3,740,001</u>	<u>\$ 5,223,423</u>

B. Modified Accrual Fund Balances

Fund balances have been restated at July 1, 2009, to account for the correction of revenues and expenses recorded in the incorrect funds. The adjustments had the following effect on governmental modified fund balances as previously reported:

	General Fund	Bond Retirement	Other Governmental Funds
Beginning fund balances, June 30, 2009	\$ 1,972,928	\$ 0	\$ 7,627,278
Adjustments:			
Intergovernmental revenue	394,924	0	(394,924)
Support Services: Administration	(78,799)	0	78,799
Non major fund to major fund	0	2,747,186	(2,747,186)
Beginning fund balances, July 1, 2009	<u>\$ 2,289,053</u>	<u>\$ 2,747,186</u>	<u>\$ 4,563,967</u>

C. Net Assets

Net assets have been restated at July 1, 2009, due to the capital asset re-evaluation by an appraisal company and threshold change from \$2,500 to \$5,000. The adjustments had the following effect on governmental activities net assets as previously reported:

Governmental activities net assets, June 30, 2009	\$ 52,075,752
Adjustments:	
Non-depreciable assets	(6,202,318)
Depreciable assets (net)	2,358,548
Governmental activities net assets, July 1, 2009	<u>\$ 48,231,982</u>

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 19 – CLAIMS SERVICING POOL

Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan (OME-RESA) - The District began participating in the OME-RESA self-insurance plan during the 2009 fiscal year, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the OME-RESA's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. The District paid \$415,444 to OME-RESA during fiscal year 2010 for services. All participating members retain their risk and the Plan acts as the claims servicing agent.

NOTE 20 – SUBSEQUENT EVENT

In December 2010, the School District entered into a Ground Lease Agreement with Huntington National Bank, in which the School District was the Lessor of School District land (known as the "Project Site") for school facilities construction. On the same date, the School District entered into a Lease Agreement with Huntington National Bank in which the School District would lease, from Huntington National Bank, the Project Site and Project Facilities.

In return for the Ground Lease Agreement, Huntington National Bank agrees to make available \$2,000,000 for school facilities improvements. The term of the Ground Lease is fourteen years and will end on December 31, 2025. As Lessee, Huntington National Bank made a onetime payment of \$1 to the School District, which represents their leasehold interest in the Project Site over the term of the Ground Lease.

The Lease Agreement entered into between the same two parties has an initial Lease Term ending June 30, 2011. The Lease may be renewed by the Lessee (the School District) annually for one year each through December 1, 2020. Each renewal shall be considered a new lease. Principal payments on each annual lease are in the amount of \$200,000.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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March 24, 2011

To the Board of Education
East Liverpool City School District
Columbiana County, Ohio
500 Maryland Avenue
East Liverpool, Ohio 43920

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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 (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness listed as finding 2010-001.

East Liverpool City School District
Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards*
March 24, 2011
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated March 24, 2011.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies, pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

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March 24, 2011

To the Board of Education
East Liverpool City School District
Columbiana County, Ohio
500 Maryland Avenue
East Liverpool, Ohio 43920

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of East Liverpool City School District (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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

EAST LIVERPOOL CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor Program Title	Program Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through the Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program	2010	10.553	\$ 165,965	\$ 165,965
National School Lunch Program	2010	10.555	556,094	556,094
Food Commodity Distribution (B)	2010	10.555	<u>53,742</u>	<u>53,742</u>
Total Child Nutrition Cluster (A)			<u>775,801</u>	<u>775,801</u>
ARRA - Child Nutrition Discretionary Grants	2010	10.579	32,585	32,585
Fresh Fruit and Vegetable Program	2009	10.582	10,759	10,759
	2010	10.582	<u>13,955</u>	<u>13,955</u>
Total Fresh Fruit and Vegetable Program			<u>24,714</u>	<u>24,714</u>
Total U.S. Department of Agriculture			<u>833,100</u>	<u>833,100</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	2009	84.027	92,234	199,882
	2010	84.027	483,444	579,857
ARRA - Special Education Grants to States (IDEA Part B)	2010	84.391	<u>324,844</u>	<u>132,752</u>
Total Special Education - Grants to States (IDEA Part B)			<u>900,522</u>	<u>912,491</u>
Special Education - Preschool Grants	2009	84.173	537	2,800
	2010	84.173	18,335	17,997
ARRA - Special Education - Preschool Grants	2010	84.392	<u>8,000</u>	<u>9,848</u>
Total Special Education - Preschool Grants			<u>26,872</u>	<u>30,645</u>
Total Special Education Cluster			<u>927,394</u>	<u>943,136</u>
Grants to Local Educational Agencies (Title I)	2009	84.010	120,000	209,343
Grants to Local Educational Agencies (Title I)	2010	84.010	911,684	983,815
School Improvement Sub A (Title I)	2010	84.010	128,579	77,224
ARRA - Grants to Local Educational Agencies (Title I)	2010	84.389	<u>310,198</u>	<u>244,044</u>
Total Title I Cluster			<u>1,470,461</u>	<u>1,514,426</u>
School Improvement Sub G (Title I)	2010	84.377	56,624	76,412
Safe and Drug Free Schools (Title IV-A)	2009	84.186	1,600	258
	2010	84.186	<u>-</u>	<u>1,432</u>
Total Safe and Drug Free Schools (Title IV-A)			<u>1,600</u>	<u>1,690</u>
Innovative Education Program Strategies (Title V)	2010	84.298	-	906
Technology Literacy Quality State Grants (Title II-D)	2009	84.318	1,000	3,168
	2010	84.318	<u>7,000</u>	<u>12,190</u>
Total Technology Literacy Quality State Grants (Title II-D)			<u>8,000</u>	<u>15,358</u>
Rural and Low Income (Title VI-B)	2009	84.358	-	22,289
	2010	84.358	<u>30,156</u>	<u>33,578</u>
Total Rural and Low Income (Title VI-B)			<u>30,156</u>	<u>55,867</u>
Improving Teacher Quality State Grants (Title II-A)	2009	84.367	-	98,130
	2010	84.367	<u>226,315</u>	<u>246,720</u>
Total Improving Teacher Quality State Grants (Title II-A)			<u>226,315</u>	<u>344,850</u>
Vocational Education - Basic Grants to State	2009	84.048	8,149	20,261
	2010	84.048	<u>74,185</u>	<u>70,944</u>
Total Vocational Education - Basic Grants to State			<u>82,334</u>	<u>91,205</u>
ARRA - Education Stabilization Fund	2010	84.394	1,114,333	897,751
<i>Direct Award:</i>				
Impact Aid	2009	84.041	-	2,235
Total Impact Aid			<u>-</u>	<u>2,235</u>
Total U.S. Department of Education			<u>3,917,217</u>	<u>3,943,836</u>
Totals			<u>\$ 4,750,317</u>	<u>\$ 4,776,936</u>

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

**East Liverpool City School District
Columbiana County, Ohio**

*Notes to the Schedule of Expenditures Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2010*

Note A - Child Nutrition Cluster

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note B – 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 and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2010, the ODE authorized the following transfers:

CFDA Number	Program Title	Program Year	Transfers Out	Transfers In
84.010	Grants to Local Educational Agencies (Title I)	2009	\$ 132,714	
84.010	Grants to Local Educational Agencies (Title I)	2010		\$ 132,714
84.367	Improving Teacher Quality State Grants (Title II-A)	2009	31,623	
84.367	Improving Teacher Quality State Grants (Title II-A)	2010		31,623
84.318	Technology Literacy Quality State Grants (Title II-D)	2009	2,699	
84.318	Technology Literacy Quality State Grants (Title II-D)	2010		2,699
84.186	Safe and Drug Free Schools (Title IV-A)	2009	4,612	
84.186	Safe and Drug Free Schools (Title IV-A)	2010		4,612
84.027	Special Education - Grants to States (IDEA Part B)	2009	118,076	
84.027	Special Education - Grants to States (IDEA Part B)	2010		118,076
84.173	Special Education - Preschool Grants	2009	670	
84.173	Special Education - Preschool Grants	2010		670

**EAST LIVERPOL CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Special Education Cluster Title I Cluster Education Stabilization Fund	CFDA # 84.027, 84.173, 84.391, 84.392 CFDA # 84.010, 84.389 CFDA #84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**EAST LIVERPOL CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2010**

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

Material Weakness 2010-001

Criteria:

In 2010, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which supersedes SAS No. 112. This standard became effective for audits of financial statements for periods ending on or after December 15, 2009.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

The financial statements included the presentation and disclosure of capital assets. The School District does not have personnel with expertise to compile capital assets; therefore, in good faith, the School District hired a specialized appraisal company to compile the capital asset reports for financial statement purposes. The compilation and presentation of materially correct financial statements and the related footnotes is the ultimate responsibility of management of the School District.

Condition Found:

As a result of our audit, we identified adjustments needed to the reports developed by the specialized appraisal firm that were not detected by management, which resulted in material misstatements in the School District's financial statements, as well as other misstatements that were not necessarily material, but were more than inconsequential. Material adjustments noted above have been subsequently approved by management and reported in the audited financial statements.

Effect:

The School District had GAAP audit adjustments to the original Generally Accepted Accounting Principles (GAAP) financial statements that were presented for audit. These GAAP adjustments were related to construction in progress, contracts payable, and non-depreciable and depreciable capital assets. There were no audit adjustments needed to the cash records of the School District.

Recommendations:

The School District is relying on a specialized appraisal firm to compile the capital asset records for the financial statements. We recommend the School District consider modifying the existing control procedures over the financial reporting process to include an independent review of the capital asset reports, financial statements and the related journal entries. We also recommend increasing the communication between the School District and the appraisal company to ensure all information needed is properly requested and provided. The review should be conducted by School District personnel that are knowledgeable of generally accepted accounting principles.

**EAST LIVERPOL CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2010**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

Material Weakness 2010-001 (continued)

Management's Response:

The School District secured the services of an independent appraisal firm to inventory and value its fixed assets. This was timed to coincide with the substantial completion of a \$43 million renovation of district facilities. Personnel changes at the independent firm and other issues led to difficulties in communication between the independent appraisal firm, the audit team and management. This resulted in unanticipated additional work from the audit team and management to validate fixed asset values and to resolve other related issues. At this time, management has a good faith belief that those issues have been resolved to the satisfaction of the audit team. The School District accepts the audit recommendation and will implement the recommended independent review effective for the Fiscal Year 2010-2011 audit period.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-001	Statement on Auditing Standards 112; the District's financial statements included material audit adjustments and prior period adjustments.	No	Re-issued as Statement on Auditing Standards 115 Finding 2010-001
2009-002	34 CFR 80.20 requires accurate and complete disclosure of financial results; the District included advances in the cash drawdown requests.	Yes	
2009-003	The District did not properly evaluate various IEPs and certain IEPs could not be located by the District.	Yes	



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 24, 2011

East Liverpool City School District
500 Maryland Avenue
East Liverpool, OH 43920

To the Board of Education:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether East Liverpool City School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on May 9, 2005.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

- (3) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (4) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
3. The policy excluded the following required elements:
- (1) A procedure for reporting prohibited incidents;
 - (2) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (3) A procedure for documenting any prohibited incident that is reported;
 - (4) A procedure for responding to and investigating any reported incident;
 - (5) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
 - (6) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

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Dave Yost • 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
MAY 5, 2011**