



**Auditor of State
Betty Montgomery**

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

**Financial Forecast
For the Fiscal Year Ending June 30, 2005**

Local Government Services Section

East Liverpool City School District
Columbiana County

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**Auditor of State
Betty Montgomery**

Financial Planning and Supervision Commission
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

and

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

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Liverpool City School District, Columbiana County, Ohio, and issued a report dated February 23, 2005. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2005 of \$1,345,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2005 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

Each School District receiving certification of an operating deficit under 3316.08, Revised Code, is required to recommend to the Financial Planning and Supervision Commission whether or not a property or income tax levy should be placed on the ballot and shall provide supporting documentation for its recommendation. After considering the Board of Education's recommendation and supporting documentation, the Commission shall adopt a resolution either to submit a ballot question proposing a tax or not to submit such a question.

BETTY MONTGOMERY
Auditor of State

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem
Chief of Local Government Services

March 18, 2005

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**Auditor of State
Betty Montgomery**

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Liverpool City School District for the fiscal year ending June 30, 2005. The East Liverpool City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of East Liverpool City School District for the fiscal years ended June 30, 2002, 2003 and 2004 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

Betty Montgomery

Betty Montgomery
Auditor of State

February 23, 2005

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 THROUGH 2004 ACTUAL;
FOR THE FISCAL YEAR ENDING JUNE 30, 2005 FORECASTED
GENERAL FUND

| | Fiscal Year 2002 Actual | Fiscal Year 2003 Actual | Fiscal Year 2004 Actual | Fiscal Year 2005 Forecasted |
|--|----------------------------|----------------------------|----------------------------|--------------------------------|
| Revenues | | | | |
| General Property Tax (Real Estate) | \$3,333,000 | \$3,381,000 | \$3,475,000 | \$3,244,000 |
| Tangible Personal Property Tax | 726,000 | 655,000 | 590,000 | 635,000 |
| Unrestricted Grants-in-Aid | 14,024,000 | 14,251,000 | 15,893,000 | 16,129,000 |
| Restricted Grants-in-Aid | 1,704,000 | 2,230,000 | 1,629,000 | 1,552,000 |
| Property Tax Allocation | 501,000 | 515,000 | 519,000 | 490,000 |
| All Other Revenues | 618,000 | 314,000 | 1,016,000 | 1,256,000 |
| <i>Total Revenues</i> | <u>20,906,000</u> | <u>21,346,000</u> | <u>23,122,000</u> | <u>23,306,000</u> |
| Other Financing Sources | | | | |
| Solvency Assistance Advance | 0 | 0 | 2,606,000 | 0 |
| Advances In | 37,000 | 183,000 | 5,000 | 306,000 |
| Operating Transfers In | 42,000 | 0 | 25,000 | 0 |
| <i>Total Other Financing Sources</i> | <u>79,000</u> | <u>183,000</u> | <u>2,636,000</u> | <u>306,000</u> |
| <i>Total Revenues and Other Financing Sources</i> | <u>20,985,000</u> | <u>21,529,000</u> | <u>25,758,000</u> | <u>23,612,000</u> |
| Expenditures | | | | |
| Personal Services | 13,719,000 | 14,453,000 | 14,649,000 | 13,635,000 |
| Employees' Retirement/Insurance Benefits | 5,126,000 | 5,523,000 | 6,004,000 | 5,981,000 |
| Purchased Services | 1,306,000 | 1,472,000 | 2,625,000 | 3,320,000 |
| Supplies and Materials | 885,000 | 616,000 | 491,000 | 420,000 |
| Capital Outlay | 254,000 | 47,000 | 123,000 | 71,000 |
| Debt Service: | | | | |
| Principal - Solvency Assistance | 0 | 0 | 0 | 1,303,000 |
| Principal - HB 264 Loan | 78,000 | 82,000 | 87,000 | 91,000 |
| Interest | 26,000 | 22,000 | 18,000 | 14,000 |
| Other Objects | 275,000 | 378,000 | 279,000 | 204,000 |
| <i>Total Expenditures</i> | <u>21,669,000</u> | <u>22,593,000</u> | <u>24,276,000</u> | <u>25,039,000</u> |
| Other Financing Uses | | | | |
| Operating Transfers Out | 277,000 | 0 | 0 | 77,000 |
| Advances Out | 189,000 | 0 | 48,000 | 306,000 |
| All Other Financing Uses | 0 | 0 | 0 | 149,000 |
| <i>Total Other Financing Uses</i> | <u>466,000</u> | <u>0</u> | <u>48,000</u> | <u>532,000</u> |
| <i>Total Expenditures and Other Financing Uses</i> | <u>22,135,000</u> | <u>22,593,000</u> | <u>24,324,000</u> | <u>25,571,000</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>(1,150,000)</u> | <u>(1,064,000)</u> | <u>1,434,000</u> | <u>(1,959,000)</u> |
| Cash Balance (Deficit) July 1 | <u>2,198,000</u> | <u>1,048,000</u> | <u>(16,000)</u> | <u>1,418,000</u> |
| Cash Balance (Deficit) June 30 | <u>1,048,000</u> | <u>(16,000)</u> | <u>1,418,000</u> | <u>(541,000)</u> |
| Encumbrances and Reserves: | | | | |
| Actual/Estimated Encumbrances June 30 | 132,000 | 270,000 | 135,000 | 232,000 |
| Reservations of Fund Balance for: | | | | |
| Budget Reserve | 257,000 | 20,000 | 20,000 | 0 |
| Textbooks | 31,000 | 182,000 | 303,000 | 516,000 |
| Capital Improvements | 0 | 0 | 57,000 | 0 |
| Bus Purchase | 64,000 | 121,000 | 30,000 | 56,000 |
| DPIA | 311,000 | 14,000 | 16,000 | 0 |
| Parity Aid | 127,000 | 94,000 | 0 | 0 |
| Total Encumbrances and Reserves of Fund Balance | <u>922,000</u> | <u>701,000</u> | <u>561,000</u> | <u>804,000</u> |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30 | <u>\$126,000</u> | <u>(\$717,000)</u> | <u>\$857,000</u> | <u>(\$1,345,000)</u> |

See accompanying summary of significant forecast assumptions and accounting policies
See accountants report

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 1 – The School District

The East Liverpool City School District (School District) is located in Columbiana County and encompasses all of the City of East Liverpool, all of Liverpool Township and a portion of Saint Clair Township. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates five instructional buildings, one administrative building and one bus garage. The School District is staffed by 124 non-certified, 243 certificated and 28 administrative personnel to provide services to 2,912 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the East Liverpool City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of February 23, 2005, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the disadvantaged pupil impact aid (DPIA) fund and general fund supported debt are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget (non-GAAP) basis of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

B. - Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds.

C. - Budgetary Process

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 the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Budget – A budget of estimated cash receipts and disbursements is submitted to the Columbiana County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Estimated Resources - The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 - General Operating Assumptions

The East Liverpool City School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real property, public utility real and personal property and tangible personal property taxes. The general property tax revenue account appearing on the Statement includes real estate taxes, public utility property taxes and manufactured home taxes. The School District may request advances from the Columbiana County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

The property tax revenues for the general fund are generated from several levies. The levies for the general fund, the year approved, last year of collection, and the full tax rate are as follows:

| Tax Levies | Year Approved | Last Calendar Year of Collection | Full Tax Rate (per \$1,000 of assessed valuation) |
|--------------------------------------|------------------|--|---|
| Inside Ten Mill Limitation (Unvoted) | n/a | n/a | \$4.20 |
| Continuing Operating | 1976 | n/a | 16.40 |
| Continuing Operating | 1996 | n/a | 7.00 |
| Emergency | 2000 | 2005 | 6.80 |
| Total Tax Rate | | | <u>\$34.40</u> |

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

The School District also has levies for bonded debt and school facilities maintenance totaling \$3.70 per \$1,000 of assessed valuation. The School District's total rate is \$38.10 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property. The effective residential and agricultural rate is \$26.81 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$30.82 per \$1,000 of assessed valuation for calendar year 2004.

General Property Tax (Real Estate) - The general property tax revenue estimate is based upon actual receipts and information provided by the Columbiana County Auditor's office. The School District anticipates a decrease of \$231,000 from the prior fiscal year. The decrease is due to a decline in assessed valuation for the an increase in collection of delinquencies during fiscal year 2004, and a more conservative estimate from the county auditor's office because of the economic conditions within the county.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "property tax allocation".

Tangible Personal Property Tax - Tangible personal property tax is applied to property used in business (except for public utilities). Tangible personal property tax revenues are based upon information provided by the Columbiana County Auditor. Based upon these estimates, the School District anticipates an increase of \$45,000 from the previous fiscal year. The increase is due an increase in assessed valuation offset by a decrease in the assessment rate for inventory.

The State exempts the first \$10,000 in personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State will phase out the reimbursement by 10 percent each year. The reimbursement is included in the tangible personal property tax revenues.

B. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, excess cost supplement, and charge-off supplement which are provided to address certain policy issues or correct flaws in formula aid are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature), less the equivalent of 23 mills times the school district's taxable property valuation. The per pupil foundation level for fiscal year 2002 was set by the State legislature at \$4,490 and \$4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 at \$5,058 and \$5,169 for fiscal year 2005.

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

The anticipated unrestricted grants-in-aid for fiscal year 2005 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the February school foundation statement are as follows:

| | Fiscal Year 2003 | Fiscal Year 2004 | Fiscal Year 2005 | Variance |
|--------------------------|----------------------------|----------------------------|----------------------------|-------------------------|
| Formula Aid | \$12,038,000 | \$11,780,000 | \$11,786,000 | \$6,000 |
| Categorical Funding | 1,676,000 | 1,412,000 | 1,456,000 | 44,000 |
| Equity Aid | 510,000 | 366,000 | 190,000 | (176,000) |
| Transportation | 589,000 | 628,000 | 593,000 | (35,000) |
| Excess Cost | 117,000 | 135,000 | 132,000 | (3,000) |
| Parity Aid | 0 | 1,459,000 | 1,955,000 | 496,000 |
| Open Enrollment Received | 571,000 | 0 | 0 | 0 |
| Open Enrollment Paid | (1,264,000) | 0 | 0 | 0 |
| Foundation Adjustments | (15,000) | 92,000 | (11,000) | (103,000) |
| Total Foundation | <u>14,222,000</u> | <u>15,872,000</u> | <u>16,101,000</u> | <u>229,000</u> |
| Utility Deregulation | <u>29,000</u> | <u>21,000</u> | <u>28,000</u> | <u>7,000</u> |
| Totals | <u><u>\$14,251,000</u></u> | <u><u>\$15,893,000</u></u> | <u><u>\$16,129,000</u></u> | <u><u>\$236,000</u></u> |

Formula aid decreased due to a decline in ADM of 54 and an increase in assessed values and was offset by an increase in the per pupil foundation amount. Equity aid is being phased out each year through fiscal year 2005. Parity aid continues its phase in with the percentage of the calculated amount going from 40 percent in fiscal year 2003 to 58 percent in fiscal year 2004, and 76 percent in fiscal year 2005. Beginning in 2004, open enrollment revenue is reflected as other miscellaneous revenue and open enrollment payments are reflected as purchased services expenditures.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August. For fiscal year 2005, the School District anticipates \$28,000 in public utility reimbursements which is included in unrestricted grants-in-aid, based on information provided by the Ohio Department of Taxation.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and DPIA monies. For fiscal year 2005, the School District anticipates \$26,000 in bus purchase allowance monies, \$333,000 in career tech monies and \$1,193,000 in DPIA monies. A \$77,000 decrease is anticipated from the prior year due primarily to the School District receiving less bus and career tech monies from the State.

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Columbiana County Auditor, is anticipated to be \$490,000, a decrease of \$29,000 from fiscal year 2004.

E. - All Other Revenues

All other revenues include tuition, open enrollment, Midland tuition, transportation, interest on investments, drivers' education fees, rent, other receipts, and the refund of prior year expenditures.

The School District receives tuition for students from Midland, Pennsylvania who attend the East Liverpool City School District, as well as from open enrollment. In prior years, the School District recorded open enrollment revenue on its books net of open enrollment expenditures. Starting in 2004, the School District is recording the open enrollment revenue at gross instead of net.

Interest is based on historical investment practices and anticipated rates during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund.

The School District received insurance proceeds and Federal Emergency Management Agency grant monies for the loss and damage of school property due to flooding that is categorized as proceeds from loss of capital assets.

All other revenues consist of the following:

| Revenue Sources | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|--------------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Tuition | \$11,000 | \$11,000 | \$9,000 | (\$2,000) |
| Open Enrollment Tuition | 0 | 626,000 | 630,000 | 4,000 |
| Midland Tuition | 218,000 | 303,000 | 276,000 | (27,000) |
| Transportation | 3,000 | 4,000 | 5,000 | 1,000 |
| Interest on Investments | 35,000 | 16,000 | 30,000 | 14,000 |
| Drivers Education Fees | 14,000 | 18,000 | 11,000 | (7,000) |
| Rentals | 1,000 | 5,000 | 3,000 | (2,000) |
| Other Revenue | 5,000 | 20,000 | 31,000 | 11,000 |
| Donations | 0 | 1,000 | 4,000 | 3,000 |
| Payments in Lieu of Taxes | 0 | 10,000 | 11,000 | 1,000 |
| Proceeds from Loss of Capital Assets | 0 | 0 | 179,000 | 179,000 |
| Refund of Prior Year Expenditures | 27,000 | 2,000 | 67,000 | 65,000 |
| Totals | <u>\$314,000</u> | <u>\$1,016,000</u> | <u>\$1,256,000</u> | <u>\$240,000</u> |

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

F. - Other Financing Sources

The School District received \$2,606,000 in a State solvency assistance advance during fiscal year 2004. The advance will be repaid without interest over two fiscal years beginning in fiscal year 2005 through deductions from the School District's foundation settlements.

The School District is forecasting advances amounting to \$306,000 for fiscal year 2005. The School District is forecasting advances to the following funds:

| | <u>Amount</u> |
|------------------------|-------------------------|
| Various Grant Funds | \$160,000 |
| Food Service Fund | 145,000 |
| After School Care Fund | <u>1,000</u> |
| Totals | <u><u>\$306,000</u></u> |

The School District is forecasting that all advances made to other funds will be repaid during fiscal year 2005. The School District is not forecasting any transfers in for fiscal year 2005.

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, retirement incentive bonus, insurance opt out, and all other bonuses. All employees receive their compensation on a bi-weekly basis.

Certified (teaching) staff salaries are based on a negotiated contract which includes no base increase for existing staff during fiscal year 2005. The contract covers the period September 1, 2004 to August 31, 2005, and allows for step increases that range from four to six percent and educational incentives. The prior fiscal years include a four percent increase in base salary as well as step increases from four to six percent in each year.

Classified staff salaries are based on a negotiated contract which includes base and step increases and a one time bonus payment of \$2,000. The contract covers the period September 1, 2004 to August 31, 2005, and allows for a two percent increase in the base salary as well as step increases that range from four to six percent. The prior fiscal years includes a one percent increase in base salary as well as step increases from four to six percent in each year.

Certified salaries are expected to decline due to the retirement of twelve employees. None were replaced. Five classified employees retired without being replaced resulting in a decrease in classified salaries.

In addition to the retirements, the School District has also reduced staff by thirty-six employees.

Supplemental contracts are expected to decrease during the forecast period due to less positions being filled during fiscal year 2005.

East Liverpool City School District
Columbiana County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

The School District offers severance pay upon retirement to its certified and classified employees with at least five years of service in the School District. Payments for certified and classified employees are one-third of the first ninety days of accumulated sick leave plus ten percent of all days beyond the first ninety. Payment is based on the daily rate of pay at retirement. Severance costs are anticipated to increase due to the retirement of seventeen staff members during the forecast period compared with the retirement of eleven staff members during fiscal year 2004.

The School District offers a retirement incentive bonus of \$10,000 to certified employees with twenty or more years of service. The payment is made in two equal payments in June of consecutive years after retirement.

The School District offers an incentive for those employees not taking health care, a professional growth bonus, and an attendance bonus for its employees. These bonuses are anticipated to increase due to more employees taking advantage of these benefits during fiscal year 2005.

Presented below is a comparison of salaries and wages for fiscal years 2003, 2004 and the forecast period.

| Revenue Sources | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Certified Salaries | \$11,224,000 | \$11,614,000 | \$10,721,000 | (\$893,000) |
| Classified Salaries | 2,182,000 | 2,173,000 | 2,003,000 | (170,000) |
| Substitute Salaries | 413,000 | 298,000 | 320,000 | 22,000 |
| Supplemental Contracts | 306,000 | 222,000 | 179,000 | (43,000) |
| Severance Pay | 47,000 | 94,000 | 132,000 | 38,000 |
| Retirement Incentive Bonus | 75,000 | 60,000 | 85,000 | 25,000 |
| Insurance Opt Out and Bonuses | 197,000 | 180,000 | 182,000 | 2,000 |
| Other Salaries and Wages | 9,000 | 8,000 | 13,000 | 5,000 |
| Totals | <u>\$14,453,000</u> | <u>\$14,649,000</u> | <u>\$13,635,000</u> | <u>(\$1,014,000)</u> |

B. – Employees’ Retirement/Insurance Benefits

Employees’ retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers’ compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers’ contribution rate of fourteen percent of salaries for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over estimates are prorated over the next calendar year. The School District pays the employees’ retirement contributions for its superintendent and treasurer and one percent of the employees’ retirement contributions for all other administrators. The decrease that appears on the schedule on page 13 is due to the reduction in staff that occurred in fiscal year 2005.

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Health care costs are based on rates set by Medical Mutual of Ohio. All funds are charged for the number of employees participating in the program and the type of coverage (single or family) provided to each employee. The health care program includes medical, prescription drug, dental care, and vision. Health care premiums are fixed for a twelve month period from October to September. Premiums increased by 9.58 percent in October of 2004 and 9.9 percent in October 2003.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

Workers' compensation is forecast to increase slightly. Workers' compensation is based on the School District's assigned rate and the actual salaries and wages paid in the previous calendar year. The increase is due to an increase in the assigned rate and the calendar year wages, which are offset by a 20 percent rebate of the premium. In fiscal year 2002 and 2003, the rebate was 50 percent and 20 percent, respectively. These rebates were partially offset by increases in the assigned rate.

The School District anticipates paying unemployment benefits of \$20,000 during fiscal year 2005, a \$13,000 increase from the prior year. This increase is due to the reduction in staff that occurred in fiscal year 2005.

Presented below is a comparison of fiscal years 2003, 2004 and the forecast period:

| | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|----------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Employer's Retirement | \$2,069,000 | \$2,244,000 | \$2,075,000 | (\$169,000) |
| Health Care/Life Insurance | 3,213,000 | 3,485,000 | 3,610,000 | 125,000 |
| Workers' Compensation | 53,000 | 123,000 | 125,000 | 2,000 |
| Medicare | 113,000 | 113,000 | 111,000 | (2,000) |
| Unemployment | 18,000 | 7,000 | 20,000 | 13,000 |
| Tuition Reimbursement | 57,000 | 32,000 | 40,000 | 8,000 |
| Totals | <u>\$5,523,000</u> | <u>\$6,004,000</u> | <u>\$5,981,000</u> | <u>(\$23,000)</u> |

C. - Purchased Services

Purchased service expenditures forecasted in the amount of \$3,320,000 are comprised of the following:

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| | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|-------------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Professional and Technical Services | \$329,000 | \$274,000 | \$414,000 | \$140,000 |
| Property Services | 391,000 | 295,000 | 315,000 | 20,000 |
| Travel and Meeting Expenses | 33,000 | 3,000 | 7,000 | 4,000 |
| Communication Costs | 66,000 | 69,000 | 40,000 | (29,000) |
| Utility Services | 481,000 | 483,000 | 439,000 | (44,000) |
| Tuition Payments | 168,000 | 215,000 | 635,000 | 420,000 |
| Open Enrollment | 0 | 1,267,000 | 1,448,000 | 181,000 |
| Pupil Transportation | 4,000 | 19,000 | 22,000 | 3,000 |
| Totals | <u>\$1,472,000</u> | <u>\$2,625,000</u> | <u>\$3,320,000</u> | <u>\$695,000</u> |

Professional and technical services will increase due to increased legal fees in defense of litigation. The tuition payments are increasing due to an increase in open enrollment and tuition payments for special education students.

D. - Supplies and Materials

Supplies and materials are comprised of the following:

| | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Forecast Fiscal Year 2005 | Variance Increase (Decrease) |
|--|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| General Supplies, Library Books and Periodicals | \$381,000 | \$92,000 | \$189,000 | \$97,000 |
| Operations, Maintenance and Repair | 59,000 | 154,000 | 168,000 | 14,000 |
| Textbooks | 176,000 | 245,000 | 63,000 | (182,000) |
| Totals | <u>\$616,000</u> | <u>\$491,000</u> | <u>\$420,000</u> | <u>(\$71,000)</u> |

General supplies are forecast to increase due to reductions in the prior fiscal year and the need to replenish supplies in fiscal year 2005. Operations, maintenance and repair will increase to accommodate the cost of helping repair flood damage incurred by the School District. The decrease in textbooks is due to the School District replacing math and science textbooks in the elementary and middle schools in fiscal year 2004.

E. - Capital Outlay

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services are recorded as capital outlay expenditures. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements is to report the expenditure of resources, not costs. The decrease of \$52,000 from fiscal year 2004 is primarily due to the School District not purchasing new school busses in fiscal year 2005.

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F. – Debt Service

General fund supported debt consists of an energy conservation loan in the amount of \$822,000 and a solvency assistance loan in the amount of \$2,606,000. The energy conservation loan will mature on September 27, 2007 and the solvency assistance loan will mature June 30, 2006. Principal expenditures for fiscal year 2005 are anticipated to be \$1,303,000 for the solvency assistance and \$91,000 for the energy conservation loan.

G. - Other Objects

Other object expenditures consist of dues and fees, insurance and awards. Other object expenditures are forecasted in the amount of \$204,000. The \$75,000 decrease is due to a decrease in Educational Service Center support services and County auditor's and treasurer's fees.

H. - Operating Transfers and Advances Out

Transfers out of \$77,000 are anticipated during fiscal year 2005 for Athletics and Music, Martha Holden Jennings Grant, Adult Basic Education, and Carl Perkins Grant special revenue funds, SchoolNet Plus capital projects fund, and the After School Care enterprise fund.

The School District is forecasting advances out in fiscal year 2005 in the amount of \$306,000 due to the timing of the receipt of grant monies received by the various funds. The general fund provides temporary funding of the program until the grant dollars are received. These advances are expected to be repaid during fiscal year 2005.

I. – All Other Financing Uses

During fiscal year 2005, the School District returned unused Title VI-B grant money from fiscal year 2001 and Title I grant money from fiscal year 2000 totaling \$149,000 to the Ohio Department of Education.

Note 8 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2004 were \$135,000 and are forecasted at \$232,000 as of June 30, 2005. The increase is due to the School District certifying and encumbering obligations when required.

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Note 9 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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 the future years.

A. – Budget Reserve

Effective April 10, 2001, Amended Senate Bill 345, deleted from law the requirement for school districts to establish a reserve for budget stabilization. The monies on hand in the School District's budget reserve will be used to reduce the anticipated deficit in fiscal year 2005.

B. - Textbooks and Instructional Materials Set-Aside

The set aside requirement for fiscal year 2005 is \$464,000. There was a carryover of \$303,000 from fiscal year 2004. The School District anticipates \$251,000 in qualifying expenditures during the current fiscal year leaving a reserve balance of \$516,000.

C. - Capital Acquisition and Improvements Set-Aside

The set aside amount for fiscal year 2004 is \$464,000. There was a carryover of \$57,000 from fiscal year 2004. The School District anticipates \$490,000 in offsets and \$71,000 in qualifying expenditures in during the current fiscal year leaving a reserve balance of (\$40,000). Therefore, no reserve for capital acquisition and improvements is forecasted.

D. – Bus Purchases

At June 30, 2004, the School District had \$30,000 in unspent bus monies. The School District received \$26,000 in a bus purchase allowance during fiscal year 2005. The School District does not anticipate spending this money in fiscal year 2005, therefore leaving a reserve balance of \$56,000.

E. – Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2004, the School District had \$16,000 in unspent DPIA monies. The School District anticipates receiving \$1,193,000 in restricted DPIA monies during fiscal year 2005. The School District anticipates spending \$1,209,000 in DPIA expenditures during the current fiscal year leaving a zero reserve balance.

F. – Parity Aid

Parity aid in fiscal year 2003 was restricted to school districts declared to be in a state of academic emergency, academic watch, or in need of continuous improvement under Section 3302.03 of the Ohio Revised Code. Beginning in 2004, the use of parity aid money was no longer restricted to particular types of expenditures. Therefore, no reserve is included for parity aid.

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Note 10 - Levies

The School District renewed an emergency levy on March 7, 2000 for a term of five years. The levy generates approximately \$1,058,000, annually. The School District attempted to renew the levy in November 2004, but it did not pass. The School District also passed a five-year permanent improvement levy in November, 1997 which also expired in fiscal year 2004. The School District took no action to renew or replace the levy. In the past ten years, the School District has placed several levies on the ballot. The type of levy, millage amount, term and election results are as follows:

| Date | Type | Amount | Term | Election Results |
|---------------|-----------------------|-------------|------------|------------------|
| November 1995 | Emergency | \$1,058,000 | 5 Years | Failed |
| August 1996 | Continuing | 7.00 mills | Continuing | Failed |
| November 1996 | Continuing | 7.00 mills | Continuing | Passed |
| November 1997 | Permanent Improvement | 2.00 mills | 5 Years | Passed |
| November 1998 | Bond Issue | 2.62 mills | 23 Years | Failed |
| February 1999 | Bond Issue | 2.62 mills | 23 Years | Failed |
| May 1999 | Bond Issue | 2.98 mills | 23 Years | Failed |
| November 1999 | Income Tax Issue | 0.75 mills | Continuing | Failed |
| March 2000 | Renewal - Emergency | \$1,058,000 | 5 Years | Passed |
| May 2002 | Bond Issue | 3.20 mills | 26 Years | Passed |
| May 2002 | Bond Issue | 0.50 mills | 26 Years | Passed |
| November 2004 | Renewal - Emergency | \$1,058,000 | 5 Years | Failed |

Note 11 - Pending Litigation

The School District has one case pending involving the prior superintendent. The School District is contesting the cases and does not anticipate any resolution or settlements in fiscal year 2005.

Note 12 - State School Funding Decision

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

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

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



**Auditor of State
Betty Montgomery**

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**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 18, 2005**