Auditor of State
Betty Montgomery

East Liverpool City School District
Columbiana County, Ohio

Financial Forecast
For the Fiscal Year Ending June 30, 2007

Local Government Services Section

East Liverpool City School District
Columbiana County

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Auditor of State
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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 October 31, 2006. 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 surplus for the fiscal year ending June 30, 2007 of $1,136,000.

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 2008 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. Currently, it is the Board’s intent not to appropriate any such advances for fiscal year 2007.

BETTY MONTGOMERY
Auditor of State

Betty Montgomery

November 22, 2006

Local Government Services Section
88 E. Broad St. / Sixth Floor / Columbus, OH 43215
Telephone: (614) 466-4717 (800) 345-2519 Fax: (614) 728-8027
www.auditor.state.oh.us

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, 2007. 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 financial forecast has been prepared assuming the East Liverpool City School District will continue as a going concern. The School District experienced an operating deficit for the fiscal years ended June 30, 2004 and 2005, obtained solvency assistance advances of $2,606,000 and $201,000; respectively, against future State revenues to finance fiscal years 2004 and 2005 operations, and has not obtained voter approval for an additional general fund operating levy. In addition, the School District was declared in Fiscal Emergency status (see Note 11) on December 18, 2003, and Management's plans have not been sufficient to eliminate the future deficits (see Note 12). These issues raise substantial doubt about the School District's ability to continue as a going concern. The financial forecast does not include any adjustments that might result from the outcome of this uncertainty.

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, 2004, 2005 and 2006 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

October 31, 2006

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

East Liverpool City School District
Columbiana County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ending June 30, 2004 Through 2006 Actual;
For the Fiscal Year Ending June 30, 2007 Forecasted
General Fund

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Forecasted
Revenues				
General Property Tax	$3,475,000	$3,558,000	$3,690,000	$3,758,000
Tangible Personal Property Tax	545,000	525,000	385,000	278,000
Unrestricted Grants-in-Aid	15,872,000	16,319,000	16,188,000	16,133,000
Restricted Grants-in-Aid	1,629,000	1,558,000	1,530,000	1,622,000
Property Tax Allocation	585,000	675,000	661,000	698,000
All Other Revenues	1,016,000	1,481,000	1,040,000	1,042,000
Total Revenues	23,122,000	24,116,000	23,494,000	23,531,000
Other Financing Sources				
Tax Anticipation Notes	0	0	1,600,000	750,000
Solvency Assistance Advance	2,606,000	201,000	0	0
Advances In	5,000	358,000	751,000	565,000
Operating Transfers In	25,000	23,000	2,000	0
Total Other Financing Sources	2,636,000	582,000	2,353,000	1,315,000
Total Revenues and Other Financing Sources	25,758,000	24,698,000	25,847,000	24,846,000
Expenditures				
Personal Services	14,649,000	13,489,000	11,992,000	11,729,000
Employees' Retirement/Insurance Benefits	6,004,000	5,889,000	5,302,000	5,240,000
Purchased Services	2,625,000	3,621,000	3,582,000	3,882,000
Supplies and Materials	491,000	398,000	499,000	649,000
Capital Outlay	123,000	72,000	59,000	147,000
Debt Service:				
Principal - Solvency Assistance	0	1,303,000	1,404,000	100,000
Principal - HB 264 Loan	87,000	91,000	96,000	101,000
Principal - Revenue Anticipation Note	0	0	1,600,000	750,000
Interest	18,000	14,000	58,000	36,000
Other Objects	279,000	337,000	272,000	269,000
Total Expenditures	24,276,000	25,214,000	24,864,000	22,903,000
Other Financing Uses				
Operating Transfers Out	0	144,000	160,000	23,000
Advances Out	48,000	507,000	572,000	540,000
All Other Financing Uses	0	149,000	0	0
Total Other Financing Uses	48,000	800,000	732,000	563,000
Total Expenditures and Other Financing Uses	24,324,000	26,014,000	25,596,000	23,466,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,434,000	(1,316,000)	251,000	1,380,000
Cash Balance (Deficit) July 1	(16,000)	1,418,000	102,000	353,000
Cash Balance June 30	1,418,000	102,000	353,000	1,733,000
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	135,000	283,000	332,000	332,000
Reservations of Fund Balance for:				
Budget Reserve	20,000	0	0	0
Textbooks	303,000	557,000	322,000	0
Capital and Maintenance	57,000	0	0	0
Bus Purchase	30,000	56,000	73,000	35,000
DPIA/Poverty Based Assistance	16,000	0	95,000	230,000
Total Encumbrances and Reserves of Fund Balance	561,000	896,000	822,000	597,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	$857,000	($794,000)	($469,000)	$1,136,000

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

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, an administrative building and a bus garage. The School District is staffed by 108 non-certified, 203 certificated and 19 administrative personnel to provide services to 2,906 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 October 31, 2006, 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 poverty based assistance fund, 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.

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 that those financed by proprietary funds).

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

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 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.

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.

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.

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 are applied to real property, public utility real and personal property, manufactured homes and tangible personal property used in business. Property taxes are collected for, and distributed to, the school district by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. 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.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue includes amounts levied against all real, public utility real and tangible, and business tangible personal property located in the School District. Property tax revenue received during calendar year 2006 for real and public utility property taxes represents collections of calendar year 2005 taxes. Property tax payments received during calendar year 2006 for tangible personal property (other than public utility property) are for calendar year 2006 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

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". Beginning in calendar year 2006, the State eliminated the ten percent rollback on commercial and industrial property. This change will increase real property taxes collected against commercial and industrial real property and decrease property tax allocation revenue.

The forecast excludes the receipt of any advances against fiscal year 2008 schedule 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 surplus may be increased to the extent advances are received prior to June 30, 2006, 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 2007.

The property tax revenues for the general fund are generated from several levies. The current levies being collected 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	2005	2010	6.50
Total Tax Rate			$34.10

The School District also has levies for bonded debt and school facilities maintenance totaling $2.90 per $1,000 of assessed valuation. The School District's total rate is $37.00 per $1,000 of valuation.

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represent gross property tax revenue. The general property tax revenue is based upon information provided by the Columbiana County Auditor. The School District anticipates an increase of $68,000 from the prior fiscal year. The increase is due to an increase in assessed valuation for fiscal year 2007 and the fact that the residential and agricultural effective rate has already been reduced to only 20 mills for current expense levies and cannot be reduced any further.

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 real property tax revenues on carryover property as in the prior year. For all voted levies except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies plus inside millage (excluding emergency levies) below 20 mills. For the General Fund, the effective residential and agricultural real property tax rate is $26.50 per $1,000 of assessed valuation and the effective commercial and industrial real property tax rate is $30.30 per $1,000 of assessed valuation for collection year 2007.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, HB 66 will switch telephone companies from being public utilities to general business taxpayers and phase out the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

<u>Tangible Personal Property Tax</u> – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on business inventory, currently at 23 percent, was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

Beginning in 2006, HB 66 will phase out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in calendar year 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the 2005 tangible personal property tax collections, will lose $590,000 when the tangible personal property tax is completely phased out in 2009. These changes do not affect tangible personal property of public utilities. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax revenues include an estimate for the October 2006 and the June 2007 personal property tax settlement. The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

<u>B. - Unrestricted Grants-in-Aid</u>

Unrestricted Grants-in-Aid include State Foundation payments. 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 regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level is set by the State Legislature as follows:

Fiscal Year	Per Pupil Foundation Level
2004	$5,058
2005	5,169
2006	5,283
2007	5,403

The anticipated unrestricted grants-in-aid for fiscal year 2007 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the August school foundation statement for fiscal year 2007 and the amounts for the last three fiscal years are as follows:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance
Formula Aid	$11,780,000	$11,886,000	$11,873,000	$11,873,000	$0
Categorical Funding	1,412,000	1,474,000	1,473,000	1,549,000	76,000
Equity Aid	366,000	190,000	0	0	0
Transportation	628,000	599,000	619,000	630,000	11,000
Excess Cost	135,000	136,000	109,000	118,000	9,000
Parity Aid	1,459,000	1,958,000	1,932,000	1,963,000	31,000
Reappraisal Guarantee	0	0	113,000	0	(113,000)
Foundation Adjustments	92,000	76,000	69,000	0	(69,000)
Totals	$15,872,000	$16,319,000	$16,188,000	$16,133,000	($55,000)

Formula Aid is anticipated to remain the same as the prior fiscal year because of the inclusion of $328,000 in a formula aid guarantee. The formula aid guarantee and an increase in per pupil funding offset a loss of revenue due to a decline in ADM of 58. Categorical funding increased due an increase special education and weighted aid. Equity aid was phased out each year through fiscal year 2005. Parity aid was phased in with the percentage of distribution going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and 100 percent in fiscal year 2006. The reappraisal guarantee safeguarded the School District from a decrease due to increases in local property valuations that result from an update or reappraisal.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance. For fiscal year 2007, the School District anticipates $23,000 in bus purchase allowance monies, $327,000 in career tech monies and $1,272,000 in Poverty Based Assistance monies which replaced the DPIA program. A $92,000 increase is anticipated from the prior year due to increases in all three types of restricted grants-in-aid monies from the State.

D. - Property Tax Allocation

The State exempted the first $10,000 in tangible personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State was phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period has been accelerated. The last reimbursement for this exemption will be in October 2008.

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. Beginning in 2006, the State eliminated the ten percent rollback credit on commercial and industrial real property and the reimbursement to local governments. Homestead and rollback revenue, based on information provided by the Columbiana County Auditor, is anticipated to be $433,000, a decrease of $108,000 from fiscal year 2006. The decrease is due to the elimination of the 10 percent rollback on commercial and industrial property.

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 2007, the School District anticipates $52,000 in public utility reimbursements based on information provided by the Ohio Department of Taxation which is included in unrestricted grants-in-aid.

Beginning in fiscal year 2006, the State will reimburse the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under HB 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in HB 66 are implemented. For fiscal year 2007, the School District anticipates receiving $192,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance
Homestead and Rollback	$519,000	$591,000	$541,000	$433,000	($108,000)
Tangible Personal Property Exempt	45,000	50,000	32,000	21,000	(11,000)
Deregulation	21,000	34,000	52,000	52,000	0
Tangible Personal Property Loss Reimbursement	0	0	36,000	192,000	156,000
Totals	$585,000	$675,000	$661,000	$698,000	$37,000

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. The decrease in the Midland tuition is due to fewer students attending the School District. Open enrollment tuition is decreasing slightly due to fewer open enrollment students attending the School District.

Interest is based on historical investment practices and anticipated rates and cash balances 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 increase in interest is due to the School District having more cash to invest.

In fiscal year 2006 other revenue included a summer program that the School District received funding for from various sources, including the Mahoning County ESC, the Columbiana County Auditor, and the students attending the program. This summer program will not reoccur in fiscal year 2007 so other revenue is forecasted to decrease.

In fiscal year 2007, the School District anticipates receiving $52,000 from the Ohio Department of Education to reimburse the District for the purchase of a non-public school bus.

In fiscal year 2005, the School District received insurance proceeds and Federal Emergency Management Agency grant monies for the loss of and damage to 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 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Tuition	$11,000	$20,000	$22,000	$21,000	($1,000)
Open Enrollment Tuition	626,000	629,000	564,000	546,000	(18,000)
Midland Tuition	303,000	286,000	183,000	126,000	(57,000)
Transportation	4,000	11,000	6,000	7,000	1,000
Interest on Investments	16,000	46,000	95,000	173,000	78,000
Drivers Education Fees	18,000	21,000	23,000	26,000	3,000
Rentals	5,000	10,000	7,000	7,000	0
Other Revenue	20,000	58,000	106,000	41,000	(65,000)
Donations	1,000	3,000	3,000	3,000	0
Payments in Lieu of Taxes	10,000	11,000	7,000	9,000	2,000
Bus Reimbursement	0	0	0	52,000	52,000
Proceeds from Loss of Capital Assets	0	320,000	0	0	0
Refund of Prior Year Expenditures	2,000	66,000	24,000	31,000	7,000
Totals	$1,016,000	$1,481,000	$1,040,000	$1,042,000	$2,000

F. - Other Financing Sources

The School District issued $750,000 in tax anticipation notes at 4.24 percent on July 6, 2006. These notes are due on June 29, 2007. The School District received $2,606,000 in a State solvency assistance advance during fiscal year 2004 and $201,000 in fiscal year 2005. Each advance is repaid without interest over the subsequent two fiscal years. The School District is forecasting no transfers for fiscal year 2007 and $565,000 from the repayment of advances to various Federal and State grant funds in the prior year.

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. Administrative and non-bargaining unit salaries are set by the Board of Education. General Fund staffing levels decreased from 358 in fiscal year 2004 to 319 in fiscal year 2005 to 287 in fiscal year 2006 to 271 in fiscal year 2007. There are no further staff reductions anticipated for the rest of the forecast period.

Certified (teaching) staff salaries are based on a negotiated contract. The original contract covered the period beginning September 1, 2001 through August 31, 2004. This contract was extended through August 31, 2005. The certified employees are still working under the extension that expired August 31, 2005. A new contract has not yet been negotiated. The base salary increase, if any, that may come about from the negotiation process is unknown. Should the School District agree to a base salary increase, each one percent increase would increase salaries and benefits approximately $135,000 and decrease the cash balance by the same amount. The forecast includes only step increases that range from four to six percent based on the fiscal year 2005 salary schedule. The fiscal year 2005 extension included no base increase and step increases that range from four to six percent. The fiscal year 2005 extension also included a special pay for certified staff in which the remaining cash balance at June 30 in the general fund was divided by the existing teachers. Fiscal year 2004 included a four percent increase in base salary as well as step increases from four to six percent in each year.

The contract for classified staff covered the period beginning September 1, 2004 through August 31, 2005. The classified employees are still working under the contract that expired August 31, 2005. A new contract for classified employees has not yet been negotiated and the Board has agreed to extend the existing contract for one year. The forecast includes only step increases that range from one to four percent based on the fiscal year 2005 salary schedule. The 2005 fiscal year included a two percent increase in base salary as well as step increases from one to four percent. Fiscal year 2004 included a one percent increase in base salary as well as step increases from four to six percent in each fiscal year.

Certified salaries are expected to decline due to the layoff of one employee, the retirement of eight employees and the resignations of six employees. Four employees were replaced. Classified salaries are expected to increase due to employees receiving step increases and an increase in student worker salaries, which was partially offset by a reduction of five classified employees, three through retirement and two through resignations.

Substitute salaries are expected to decrease by $4,000 during the forecast period due to fewer positions needing substitutes during fiscal year 2006.

Supplemental contracts are expected to increase by $4,000 during the forecast period due to the creation of one new position in fiscal year 2007.

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 decrease due to the retirement of eleven staff members during the forecast period compared with the retirement of sixteen staff members during fiscal year 2006.

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 incentive is anticipated to increase due to a one time payment of retirement incentive bonus to three administrators that retired in prior years. At the time these administrators retired, it was unclear if they were owed the retirement incentive. After researching the documentation, it discovered that the retirement incentive is owed to these retired administrators.

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 decrease due to a decrease in the number of certified and classified employees taking part in the program in fiscal year 2006.

Presented below is a comparison of salaries and wages for fiscal years 2004, 2005, 2006 and the forecast period.

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Certified Salaries	$11,614,000	$10,588,000	$9,356,000	$9,084,000	($272,000)
Classified Salaries	2,173,000	2,002,000	1,784,000	1,824,000	40,000
Substitute Salaries	298,000	293,000	302,000	298,000	(4,000)
Supplemental Contracts	222,000	189,000	170,000	174,000	4,000
Severance Pay	94,000	139,000	132,000	85,000	(47,000)
Retirement Incentive Bonus	60,000	85,000	85,000	105,000	20,000
Insurance Opt Out and Bonuses	180,000	181,000	151,000	147,000	(4,000)
Other Salaries and Wages	8,000	12,000	12,000	12,000	0
Totals	$14,649,000	$13,489,000	$11,992,000	$11,729,000	($263,000)

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 14 percent of salaries for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and actuals are prorated over the next calendar year. The School District pays the retirement contributions for its superintendent and treasurer and one percent of the retirement contributions for all other administrators. The decrease that appears on the schedule below is due to the reduction in staff that occurred for fiscal year 2007.

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 through September. The individual monthly premiums for fiscal year 2007 increased as compared with the premiums paid in fiscal year 2006, which caused the increase in health care as shown below. Premiums for major medical prescriptions and dental are forecasted to increase by 15.82 percent in October 2006; however, the increase will be offset by the reduction of sixteen employees. Premiums decreased by 1.40 percent in October 2005 and increased by 9.58 percent in October of 2004.

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

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior years. The premium for calendar year 2006, due in May 2007, increased to $.96 per hundred dollars of payroll from $.87 per hundred dollars of payroll for 2005. In 2004 and 2005, the State Workers' Compensation System granted all local government employers a premium reduction of 20 percent.

The School District anticipates paying unemployment benefits of $48,000 during fiscal year 2007, a $74,000 decrease from the prior year. This decrease is due to the large number of reductions in staff that occurred in fiscal year 2006.

Presented below is a comparison of fiscal years 2004, 2005, 2006 and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Employer's Retirement	$2,244,000	$2,133,000	$1,738,000	$1,594,000	($144,000)
Health Care/Life Insurance	3,485,000	3,488,000	3,213,000	3,367,000	154,000
Workers' Compensation	123,000	119,000	109,000	114,000	5,000
Medicare	113,000	108,000	98,000	95,000	(3,000)
Unemployment	7,000	8,000	122,000	48,000	(74,000)
Tution Reimbursement	32,000	33,000	22,000	22,000	0
Totals	$6,004,000	$5,889,000	$5,302,000	$5,240,000	($62,000)

C. - Purchased Services

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Professional and Technical Services	$274,000	$347,000	$279,000	$366,000	$87,000
Property Services	295,000	402,000	273,000	267,000	(6,000)
Travel and Meeting Expenses	3,000	14,000	8,000	48,000	40,000
Communication Costs	69,000	49,000	50,000	51,000	1,000
Utility Services	483,000	490,000	502,000	544,000	42,000
Tuition Payments	215,000	1,202,000	1,142,000	1,073,000	(69,000)
Open Enrollment	1,267,000	1,115,000	1,324,000	1,530,000	206,000
Pupil Transportation	19,000	2,000	4,000	3,000	(1,000)
Totals	$2,625,000	$3,621,000	$3,582,000	$3,882,000	$300,000

Professional and technical services and travel and meeting expenses are forecasted to increase due to restoring professional development in the School District. The increase in professional and technical services is partially offset by the lower cost of the School District's contract with ACCESS for computer services. Utility services are forecasted to increase due to an increase in consumption and the cost of gas and electric. The tuition payments are decreasing due to a decrease in payments to community schools, partially offset by an increase in tuition paid directly to other districts. Open enrollment is forecasted to increase due to more students expected to leave the School District.

D. - Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	$92,000	$144,000	$123,000	$342,000	$219,000
Operations, Maintenance and Repair	154,000	193,000	240,000	245,000	5,000
Textbooks	245,000	61,000	136,000	62,000	(74,000)
Totals	$491,000	$398,000	$499,000	$649,000	$150,000

General supplies are forecasted to increase due to the Poverty Based Assistance required supply purchases and State Career/Technical Education funding being spent for vocational instructional supplies. Operations, maintenance and repair is anticipated to increase due to the cost of diesel fuel. The decrease in textbooks is due to the School District's replacement and purchase of textbooks in fiscal year 2006, which will not occur in fiscal year 2007.

E. - Capital Outlay

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services is recorded as capital outlay. The increase of $88,000 from fiscal year 2006 is due to the School District purchasing a new bus and computer network upgrades in fiscal year 2007. Prior fiscal year capital outlay expenditures included the purchase of computer equipment.

F. – Debt Service

The outstanding balances and principal to be retired for general fund supported debt consists of the following:

Type	Maturity Date	Balance at 6/30/2006	Fiscal Year 2007 Principal Payment	Fiscal Year 2007 Interest Payment
Solvency Assistance Loan	June 30, 2007	$100,000	$100,000	$0
Energy Conservation Loan	September 27, 2007	127,000	101,000	4,000
Tax Anticipation Note	June 29, 2007	750,000	750,000	32,000
Total		$977,000	$951,000	$36,000

During fiscal year 1998, the School District issued energy conversation notes for the purpose of lighting and window replacement throughout the School District. These notes are being repaid with property taxes over a ten year period.

During fiscal years 2004 and 2005, the School District received a Solvency Assistance Fund Advance from the State. The solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code and are experiencing financial problems. The advance is repaid over a two year period from State foundation revenues.

The tax anticipation notes will be used for operations of the School District during fiscal year 2007 and will be retired with property tax revenue in 2007.

G. - Other Objects

Other object expenditures consist of dues and fees, insurance and awards. The $3,000 decrease is due primarily to a decrease in election expenses. This is due to the fact that in fiscal year 2006 the School District had election expenses related to the August 2005 special election.

H. - Operating Transfers and Advances Out

Transfers out of $23,000 are anticipated during fiscal year 2007 to the Food Service fund.

The School District is forecasting advances out in fiscal year 2006 in the amount of $540,000 due to the timing of the receipt of grant monies to the various funds. The general fund provides temporary funding of the program until the grant dollars are received.

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 monies from fiscal year 2000 totaling $149,000 to the Ohio Department of Education. During fiscal year 2007, the School District does not anticipate any other financing uses.

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, 2006 were $332,000 and are forecasted to remain the same for fiscal year 2007.

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 future years.

Beginning in fiscal year 2006, HB 66 allows school districts in fiscal emergency to set aside less than the annual required set aside amount or set aside nothing in textbooks and instruction materials and the capital and maintenance set asides. The Board of Education, by resolution, has chosen to set aside no current year revenue in the textbook and instruction materials set aside for fiscal year 2006 and is anticipating repeating this for fiscal year 2007.

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. During fiscal year 2005, the School District’s budget reserve was used to reduce the deficit.

B. - Textbooks and Instructional Materials Set-Aside

The School District had a carryover balance of $322,000 from fiscal year 2006. The School District anticipates $458,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve amount is forecasted for textbook and instructional materials.

C. - Capital and Maintenance Set-Aside

The set aside amount for fiscal year 2007 is $424,000. The School District anticipates $588,000 in offsets and $85,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

D. – Bus Purchases

At June 30, 2006, the School District had $73,000 in unspent bus monies. The School District anticipates a $24,000 bus purchase allowance during fiscal year 2007. The School District anticipates spending $62,000 on the purchase of one new bus in fiscal year 2007, leaving a reserve balance of $35,000 forecasted for bus purchases.

E. – Poverty Based Assistance/Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2006, the School District had $95,000 in unspent Poverty Based assistance monies. The School District anticipates receiving $1,272,000 in restricted Poverty Based Assistance monies during fiscal year 2007. The School District anticipates spending $1,042,000 of the Poverty Based Assistance funding during the current fiscal year leaving a reserve balance of $230,000 forecasted for Poverty Based Assistance.

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 renewed the levy again in November 2005. In August 2005, the School District attempted to pass a new $2,024,000 emergency levy for a term of five years, but it failed. 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
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	$7,900,000	26 Years	Passed
November 2004	Renewal - Emergency	$1,058,000	5 Years	Failed
August 2005	Emergency	$2,024,000	5 Years	Failed
November 2005	Renewal - Emergency	$1,058,000	5 Years	Passed

Note 11 – Financial Planning and Supervision Commission

On December 18, 2003, the School District was declared to be in a state of “Fiscal Emergency” by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District’s declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the City of East Liverpool. The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education’s discretion is limited in that all financial activity of the School District must in accordance with the plan.

The financial recovery plan was adopted on March 24, 2004 and under State law is to be updated annually. The recovery plan included the reduction of 43.5 staff members from the general fund for fiscal year 2005. The Commission issued a revised plan on June 13, 2005. The revised plan includes the reduction of 59.5 staff members for fiscal year 2006. The Commission issued a second revised plan on June 13, 2006. The second revised plan includes the reduction of 9 staff members for fiscal year 2007.

Note 12 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan assumes the continued operation of the School District with no significant increases in revenues. The plan also assumes staff reductions of nine employees for fiscal year 2007 and no staff changes for 2008 through 2011. The operating deficit increases from $2,359,000 for fiscal year 2010 to $6,070,000 for fiscal year 2011. The recovery plan adopted by the Board of Education and the Financial Planning and Supervision Commission does not address periods beyond fiscal year 2007.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
NOVEMBER 22, 2006