



Mary Taylor, CPA
Auditor of State

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District, Columbiana County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

May 31, 2007

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis in the following pages includes tables and graphic illustrations representing management's view of the overall School District financial performance in terms of its activities for the fiscal year ended June 30, 2005. The overall intent of this discussion and analysis is to look at the School District's financial performance as a whole and identify factors and events that may influence that performance in future fiscal years. The reader is encouraged to review the basic financial statements and notes to the financial statements to enhance understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- ◆ The School District's total net assets increased from \$44,680,132 to \$45,222,288 or \$542,156 during this fiscal year's operations. This represents an increase of 1.21 percent.
- ◆ Revenue from Governmental activities totaled \$29,556,535 in 2005. This total was comprised of Program revenues of \$6,910,325 and General revenues of \$22,646,210. Program revenues are grants, fees and donations. General (non-program) revenues are largely the State of Ohio foundation program and property taxes charged to resident and commercial taxpayers within the School District. Program revenues accounted for 23.4 percent of all revenues. General revenues accounted for 76.6 percent of all revenues.
- ◆ Program expenses totaled \$29,014,379. Instructional expenses accounted for 64.4 percent of all expenses while support services accounted for 29.1 percent of all expenses. Other expenses accounted for the remaining 6.5 percent of all expenses.
- ◆ The School District's outstanding long-term obligations decreased from \$10,449,302 to \$9,560,314 or \$888,988 (8.5 percent) during this fiscal year's operations.

Using This Annual Financial Report (AFR)

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

The Statement of Net Assets and the Statement of Activities (on pages 18 and 19) provide an overall view of the activities of the School District for 2005. Fund financial statements that begin on page 20 provide the next level of detail. For governmental activities, these statements explain the manner in which services were financed in the short term as well as highlight fund balances that remain for future spending. Fund financial statements also report the School District's operations in greater detail than do the government – wide statements with the presentation of information with respect to the School District's most significant funds. In the case of the East Liverpool City School District, the general fund and classroom facilities fund are the most significant funds. The remaining statements provide financial information about activities for which the School District acts solely as an agent for the benefit of those outside the governmental entity.

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Reporting the School District as a Whole (district – wide)

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the questions, “How did we perform fiscally during 2005?” This is one of the most important issues when analyzing any financial enterprise. The *Statement of Net Assets* and the *Statement of Activities* answer this question. These are the only reports that display government–wide finances.

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

Analysis of the School District as a whole begins on page 6. The Statement of Net Assets details all assets and liabilities of the School District. Net assets are the difference between assets and liabilities and are a lead indicator of financial health.

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

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

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

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

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

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

East Liverpool City School District
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reported in the Statement of Net Assets and the Statement of Activities. Differences are reconciled in the financial statements.

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

The School District as a Whole

The Statement of Net Assets provides a perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets for fiscal year 2005 versus fiscal year 2004:

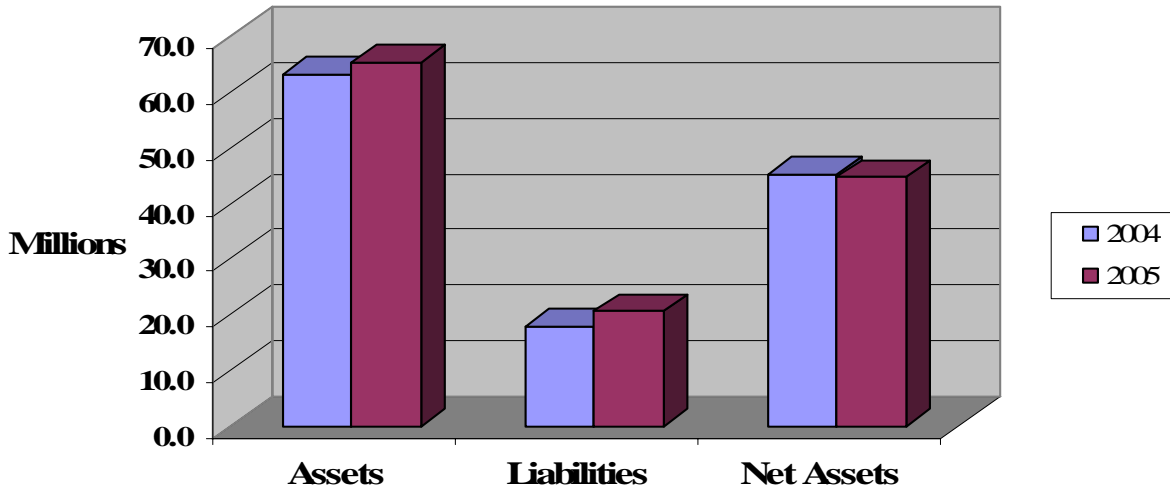
Table 1
Net Assets
Governmental Activities

	2005	2004
Assets		
Current and Other Assets	\$58,458,689	\$60,772,103
Capital Assets, Net	4,762,650	4,517,496
<i>Total Assets</i>	63,221,339	65,289,599
Liabilities		
Current Liabilities	8,438,737	10,160,165
Long-Term Liabilities		
Due in One Year	736,141	613,007
Due in More Than One Year	8,824,173	9,836,295
<i>Total Liabilities</i>	17,999,051	20,609,467
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,339,668	3,924,215
Restricted for:		
Capital Projects	44,353,547	44,799,633
Debt Service	528,187	463,960
Set Asides	530,596	494,987
Other Purpose	116,513	182,415
Unrestricted (Deficit)	(4,646,223)	(5,185,078)
<i>Total Net Assets</i>	\$45,222,288	\$44,680,132

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The School District's total net assets increased from the prior year. Net assets increased \$542,156 (after a prior period correction of \$6,909,300) primarily due to a reduction of \$7,235,104 in the project with the Ohio School Facilities Commission, a decline in current and long term liabilities of \$2,610,416 and a decline in current and other assets of \$2,313,414.

Governmental Activities



Of the School District's net assets totaling \$45,222,288, those subject to external restrictions as to use total \$45,528,843. Resources restricted to debt service and other reservations total \$1,175,296. Additionally \$44,353,547 in resources is restricted for capital projects. A negative unrestricted net assets balance of \$4,646,223 was unable to provide for the School District's ongoing obligations to the students and creditors in fiscal year 2005.

Net Capital Assets represented 7.5 percent of total assets and increased \$245,154 from the previous year. On a gross basis, Capital Assets increased \$1,159,358 over the previous year largely due to increases in construction in progress of \$741,895. Current year depreciation expense of \$914,204 offsets the additions to Capital Assets. Capital Assets, net of related debt to acquire the assets at June 30, 2005, were \$4,339,668. These capital assets are used primarily to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since liquidation of capital assets is not contemplated to repay the debt.

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

Expenses are shown in easily identifiable programs that make use of the Uniform School Accounting System (USAS) coding structure. A comparative analysis of fiscal year 2005 and fiscal year 2004 follows:

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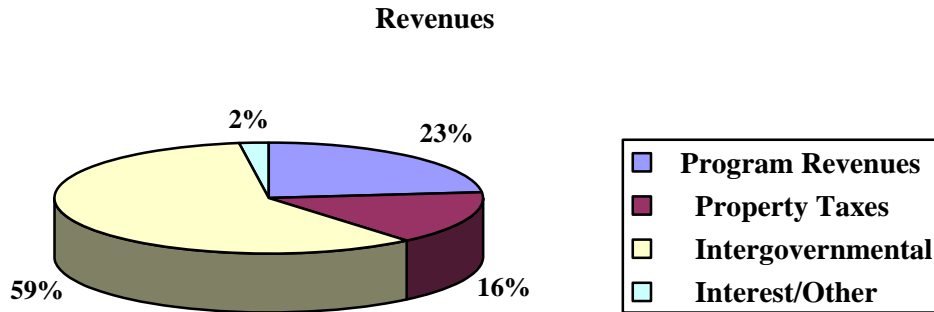
(Table 2)
Change in Net Assets - Governmental Funds

	<u>2005</u>	<u>2004</u>
Revenues		
<i>Program Revenues</i>		
Charges for Services	\$1,232,354	\$1,474,688
Operating Grants and Contributions	5,607,382	5,098,841
Capital Grants	70,589	96,176
<i>Total Program Revenues</i>	<u>6,910,325</u>	<u>6,669,705</u>
<i>General Revenues</i>		
Property Taxes	4,603,629	4,342,811
Grants and Entitlements not Restricted to Specific Programs	17,347,315	16,974,353
Investment Earnings	206,202	193,136
Miscellaneous	489,064	102,418
<i>Total General Revenues</i>	<u>22,646,210</u>	<u>21,612,718</u>
<i>Total Revenues</i>	<u>29,556,535</u>	<u>28,282,423</u>
Program Expenses		
<i>Instruction</i>		
Regular	15,042,657	12,960,395
Special	2,725,762	4,057,167
Vocational	900,063	1,199,709
Adult /Continuing	21,318	82,151
<i>Support Services:</i>		
Pupil	1,243,838	1,459,173
Instructional Staff	1,346,683	1,029,121
Board of Education	275,309	461,885
Administration	1,511,175	1,968,053
Fiscal	525,631	488,531
Business	22,028	444,286
Operation and Maintenance of Plant	2,497,746	2,560,238
Pupil Transportation	987,236	867,454
Central	37,620	18,933
Extracurricular Activities	468,399	497,497
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	1,187,481	1,163,268
Other Non-Instructional Services	201,780	169,756
Interest and Fiscal Charges	19,653	160,357
<i>Total Program Expenses</i>	<u>29,014,379</u>	<u>29,587,974</u>
<i>Increase (Decrease) in Net Assets</i>	542,156	(1,305,551)
<i>Net Assets Beginning of Year</i>	<u>44,680,132</u>	<u>45,985,683</u>
<i>Net Assets End of Year</i>	<u>\$45,222,288</u>	<u>\$44,680,132</u>

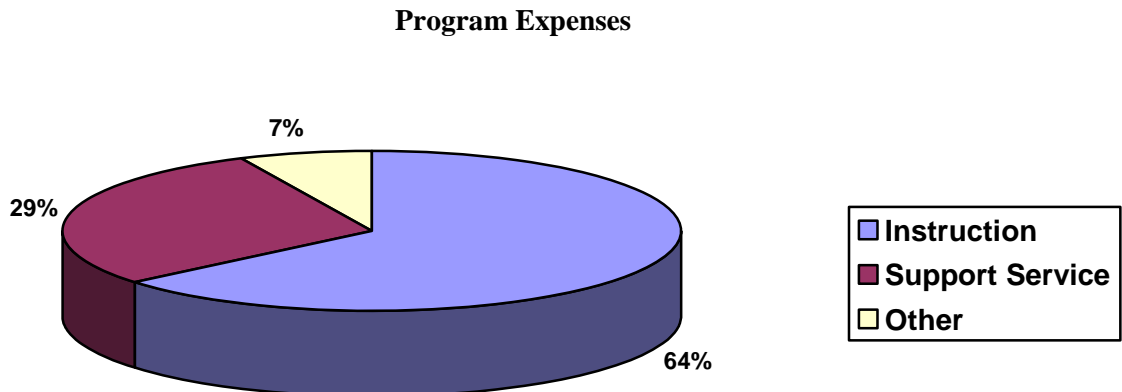
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Table 2 depicts the breakdown of both the School District's revenue sources and the types of services provided. Revenues in excess of the cost of services provided resulted in an increase to net assets of \$542,156 in fiscal year 2005.

As depicted in the chart below, General Revenue (largely property taxes and grants and entitlements) equate to approximately 77 percent of total revenue and Program Revenue (largely Charges for Services and Operating Grants) equate to approximately 23 percent of total revenue. Operating Grants, Contributions and Interest increased \$508,541 from increased grant monies.



Instruction comprises approximately 64 percent of Program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 29 percent. The remaining 7 percent of Program expenses meet other obligations of the School District such as for non-instructional services, food service operations, extracurricular activities and interest and fiscal charges. Regular and Special Instruction showed an inverse relationship with Regular Instruction increasing and Special Instruction decreasing. This change was the result of the School District reclassifying payment of employees.



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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 Total and Net Costs of Program Services – Governmental Activities details the total cost related to the programs and the net cost of services that must be covered by Unrestricted State Aid (State Foundation) or Local Taxes. A comparative analysis of fiscal year 2005 and fiscal year 2004 follows:

(Table 3)
Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Instruction				
Regular	\$15,042,657	(\$11,976,880)	\$13,286,199	(\$11,855,080)
Special	2,725,762	(2,437,398)	4,057,167	(2,624,310)
Vocational	900,063	(810,518)	1,199,709	(881,289)
Adult/Continuing	21,318	(21,318)	82,151	(20,347)
Support Services:				
Pupil	1,243,838	(616,414)	1,459,173	(874,463)
Instructional Staff	1,346,683	(716,081)	1,029,121	(266,030)
Board of Education	275,309	(266,937)	461,885	(455,881)
Administration	1,511,175	(1,035,550)	1,968,053	(1,571,416)
Fiscal	525,631	(446,682)	488,531	(402,462)
Business	22,028	(20,808)	444,286	(422,882)
Operation and Maintenance of Plant	2,497,746	(2,390,821)	2,560,238	(2,437,664)
Pupil Transportation	987,236	(877,021)	867,454	(773,731)
Central	37,620	(18,974)	18,933	(469)
Extracurricular Activities	468,399	(315,021)	497,497	(295,521)
Operation of Non-Instructional Services:				
Food Service Operations	1,187,481	(104,420)	1,163,268	(170,510)
Other Non-Instructional Services	201,780	(29,558)	169,756	(31,661)
Interest and Fiscal Charges	19,653	(19,653)	160,357	(160,357)
Total Expenses	\$29,014,379	(\$22,104,054)	\$29,913,778	(\$23,244,073)

The dependence upon taxes and in particular grants and entitlements for governmental activities is apparent. Ohio law requires County Auditors to reappraise all real property every six years. In Columbiana County the last reappraisal was completed in the year 2004 and the last triennial update in 2001. As a result of the latest reappraisal by Columbiana County in the year 2004, the School District's tax valuation increased by 5.6 percent that year. The next comprehensive re-appraisal of property values will occur in the year 2010 with a triennial preceding in the year 2007. Slow economic growth in the area has resulted in business closings, property abandonment, demolition, and valuation appeals from existing property owners seeking to reduce their taxes usually by claiming market value decreases resulting from area economic factors. Local economic conditions had been the major reason that the School District has not sought additional operating millage until the 2005/2006 school year since the passage of two subsequent renewals of an emergency levy in fiscal year 2000. An unsuccessful effort was made to secure added millage in August 2005.

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

Property Tax Growth - Last Ten Years

Calendar Year	Total Valuation	Growth Rate	
2005	\$171,289,130	5.58	%
2004	\$161,030,770	3.45	%
2003	\$163,052,530	(0.02)	%
2002	\$163,081,440	6.16	%
2001	\$153,622,820	(0.31)	%
2000	\$154,095,740	(1.73)	%
1999	\$156,808,190	12.60	%
1998	\$139,265,820	2.61	%
1997	\$135,718,130	11.97	%
1996	\$154,175,380		

The average rate of growth over the last nine years is 2.97 percent. Because of the School District's low valuation (calendar year 2004 average valuation per pupil was 593 in a ranking of 612 school districts in the State of Ohio), it is highly dependent on State funding in its attempt to achieve financial stability.

The School District's Funds

Information about the School District's major funds starts on page 20. As previously stated, these funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$29,275,426 and expenditures of \$30,374,191. The net change in overall fund balance for the year was a decline of \$1,098,765 largely accounted for by decreases in net fund balances in the classroom facilities fund of \$563,083; other governmental funds of \$642,542 and an increase in the net fund balance in the general fund of \$106,860.

The classroom facilities fund net fund balance decrease was largely due to payment of expenditures related to the construction and renovation project in excess of revenues received. The other governmental funds net fund balance decrease was largely due to instructional expenditure increases of \$134,935; support services expenditure decreases of \$563,149; non-instructional services expenditure increases of \$106,220; capital outlay expenditure increases of \$264,461 and debt service expenditure increases of \$159,949. Revenue decreases from various sources of \$873,440 further explains the overall decrease in the other governmental funds net change in fund balances.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District amended its general fund budget on several occasions. The final budget basis revenue estimate was \$21,622,291 representing an increase of

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\$1,090,570 from the original budget estimate of \$20,531,721 largely due to conservative original estimates of tax and intergovernmental revenues. Original general fund receipt estimates were within five percent of actual revenue.

The School District revises its budget throughout the year. The final budget basis expenditure estimate was \$23,466,462 representing an increase of \$1,799,455 from the original budget estimate of \$21,667,007 largely due to a less conservative estimate of expenditures generally in all categories. Original general fund expenditure estimates were within six percent of actual expenditures.

The School District's general fund balance at fiscal year end was a deficit of \$172,876 inclusive of appropriated encumbrances. This deficit reflects the receipt of a fiscal year 2005 state solvency assistance loan of \$201,000.

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$4,762,650 invested in land and improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Table 4 shows fiscal year 2005 values compared to fiscal year 2004:

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

	Governmental Activities	
	2005	2004
Land	\$42,269	\$42,269
Construction in Progress	1,375,191	633,296
Land Improvements	349,155	397,218
Buildings and Improvements	935,836	1,141,956
Furniture and Equipment	1,646,705	1,805,603
Vehicles	413,494	497,154
Totals	\$4,762,650	\$4,517,496

All capital assets, excluding land and construction in progress, are reported net of depreciation. As one can see, the main changes in capital assets during the fiscal year occurred in construction in progress,

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buildings and improvements and furniture and fixtures. Increases in capital assets were \$1,159,358 (inclusive of adjustments due to a physical inventory) less current year depreciation expense of \$914,204 (inclusive of adjustments due to a physical inventory of assets) or a net increase of \$245,154. The above table reflects continued increases in construction in progress resulting from the school facilities project. Please refer to Note 11 within the Notes to the Basic Financial Statements for further information on capital assets.

Debt

At June 30, 2005, the School District had reduced its outstanding long-term obligation by \$888,988 largely resulting from decreases in the school facility construction improvement bond and the energy conservation debt outstanding as well as a decline in capital leases and compensated absences payable.

(Table 5)
Outstanding Long-Term Obligations

	Governmental Activities	
	2005	2004
School Improvement Bonds	\$7,291,007	\$7,700,000
Energy Conservation Loan	222,207	313,235
Capital Leases	226,004	314,825
Compensated Absences	1,821,096	2,121,242
Totals	\$9,560,314	\$10,449,302

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

As of June 30, 2005, the School District's overall legal debt margin was \$8,699,373 with an unvoted debt margin of \$161,034. Capital leases do not factor into the calculation of the School District's legal debt margin. Neither Moody's nor Standard and Poor's maintain an active rating on the East Liverpool City School District. Please refer to Note 17 within the Notes to the Basic Financial Statements for further information on debt.

School District Outlook

The goal of the East Liverpool City School District continues to be to maintain the highest standards of service to our students, parents and community. In keeping with its mission statement the Board of Education has adopted a Comprehensive Continuous School Improvement Plan through which the School District intends to satisfy the rigorous requirements of the No Child Left Behind Act of 2001. The School District continues to bring about improvements that have resulted in achieving a Department of Education

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school district designation of continuous improvement from a late 1990's designation of academic emergency. The goal remains to narrow the gap between the highest and lowest achieving students through greater academic achievement in the latter, leading to total academic success.

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

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

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must look to increased reliance on local property taxes to fund its operations as State sourced revenue, already the major source of operational revenue, is expected to provide little if any growth in the foreseeable future. At the same time, the School District does not foresee any sustainable growth in revenue from property taxes due to slow economic growth. Management must diligently adjust planned expenses to fit within projected revenues in order to make improvements in its five-year forecast (fiscal year 2006 through 2010).

Externally, the School District is largely dependent on State funding sources (approximately 71 percent of the School District's operating funds are projected to result from State foundation revenue, homestead and rollback reimbursement and other entitlements in fiscal year 2006). State foundation revenue is fundamentally a function of student enrollment and school district property tax wealth. The School District has seen a trending decline in student enrollment in recent years and, while the revenue growth in state funding has shifted toward school districts with low property tax wealth, local declining enrollment has served to offset any overall meaningful increase in State funding. With the budgetary difficulties being experienced by the State, East Liverpool City School District does not anticipate any meaningful growth in State revenue during the forecast period.

The School District was placed under fiscal caution by the Department of Education in April 2003, fiscal watch on September 29, 2003 and then fiscal emergency on December 18, 2003. In response to a projected deficit of \$2.6 million, a state solvency assistance loan was approved and funds were received in that amount prior to June 30, 2004 to eliminate a projected deficit. An additional solvency assistance loan was approved and funds in the amount of \$201,000 were received prior to June 30, 2005 to eliminate a projected cash deficit.

The necessity of repaying the solvency assistance loan over a two year time period beginning in 2005 has required the development of two deficit reduction plans in order to preserve the foundation of the School District's curricular, co-curricular, and extra-curricular programs while at the same time reduce expenditures in light of declining enrollment. The impact of the plan in place is mirrored by a noticeable decline in the number of teaching, support staff and administrative positions since the end of the 2004 school year.

*East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

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

As the School District moved towards the 2006 school year, it remains clear that the School District is at a financial and operational crossroad. Financially, with 69 percent of the School District's budget driven by personnel and benefit costs and outstanding debt and largely required services projected to absorb another 26 percent of the School District's budget, revenue enhancements along with spending reductions (affecting staffing levels) remain needed for the long term financial health of the School District. The School District's recovery plans remain a mix of additional local revenue, spending reductions and an additional solvency assistance loan. Success in achieving the plan is projected to require a multi-year approach.

Operationally, the School District maintains four educational facilities (two elementary buildings, one joint elementary and middle school, and one high school) as well as an administration building and a bus garage. Each of those educational facilities were constructed in excess of thirty years ago and remain in need of renovation and in several cases increased classroom space to meet the needs of current instructional methods. At the same time, financial pressures resulting from declining enrollment have resulted in a reduction in the number of buildings in operation to generate operational savings. Recognition has been given that the closing of any school facility is never easy and often alienates a segment of the community.

With approval by voters of a 3.2 mill bond issue in May 2002, the School District and the Ohio School Facility Commission entered into an agreement in March 2003 for facilities renovations, additions, and improvements to existing buildings. Under the original project agreement, the State was to have provided \$51,982,022 or 87.0 percent of total project funding and the School District was to have provided \$7,769,000 or 13.0 percent of total project funding sourced from proceeds of the above mentioned bond issue. The total project budget was to have been \$59,751,022.

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

In addition, a modest maintenance levy, approved by the voters along with the facilities issue, offers the potential of helping to maintain school district buildings and provide needed technology. The facilities program offers its residents better educational opportunities for its youth and represents a positive development in the community. As of the writing of this analysis, the facilities program remains in the design phase.

*East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

Contacting the School District's Financial Management

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

East Liverpool City School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,724,143
Accounts Receivable	228
Accrued Interest Receivable	3,068
Intergovernmental Receivable	42,955,351
Inventory Held for Resale	22,124
Materials and Supplies Inventory	5,050
Prepaid Items	35,637
Taxes Receivable	4,640,410
Deferred Charges	72,678
Nondepreciable Capital Assets	1,417,460
Depreciable Capital Assets, Net	<u>3,345,190</u>
<i>Total Assets</i>	<u>63,221,339</u>
Liabilities	
Accounts Payable	178,470
Accrued Wages and Benefits	1,984,732
Intergovernmental Payable	543,581
Deferred Revenue	4,044,984
Matured Compensated Absences Payable	97,970
Special Termination Benefits Payable	85,000
State Operating Loan Payable	1,504,000
Long-Term Liabilities:	
Due Within One Year	736,141
Due In More Than One Year	<u>8,824,173</u>
<i>Total Liabilities</i>	<u>17,999,051</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,339,668
Restricted for:	
Capital Projects	44,353,547
Debt Service	528,187
Set Asides	530,596
Other Purposes	116,513
Unrestricted (Deficit)	<u>(4,646,223)</u>
<i>Total Net Assets</i>	<u><u>\$45,222,288</u></u>

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$15,042,657	\$498,759	\$2,549,396	\$17,622	(\$11,976,880)
Special	2,725,762	108,863	179,501	0	(2,437,398)
Vocational	900,063	35,030	54,515	0	(810,518)
Adult/Continuing	21,318	0	0	0	(21,318)
Support Services:					
Pupil	1,243,838	30,533	596,891	0	(616,414)
Instructional Staff	1,346,683	26,003	604,599	0	(716,081)
Board of Education	275,309	8,372	0	0	(266,937)
Administration	1,511,175	62,463	413,162	0	(1,035,550)
Fiscal	525,631	20,998	57,951	0	(446,682)
Business	22,028	1,220	0	0	(20,808)
Operation and Maintenance of Plant	2,497,746	104,112	2,813	0	(2,390,821)
Pupil Transportation	987,236	38,084	19,164	52,967	(877,021)
Central	37,620	360	18,286	0	(18,974)
Extracurricular Activities	468,399	149,350	4,028	0	(315,021)
Operation of Non-Instructional Services:					
Food Service Operations	1,187,481	138,653	944,408	0	(104,420)
Other Non-Instructional Services	201,780	9,554	162,668	0	(29,558)
Interest and Fiscal Charges	19,653	0	0	0	(19,653)
<i>Total Governmental Activities</i>	<u>\$29,014,379</u>	<u>\$1,232,354</u>	<u>\$5,607,382</u>	<u>\$70,589</u>	<u>(22,104,054)</u>
General Revenues					
Property Taxes Levied for:					
					4,161,111
					22,964
					419,554
					17,347,315
					206,202
					489,064
					<u>22,646,210</u>
					542,156
					<u>44,680,132</u>
					<u>\$45,222,288</u>

See accompanying notes to the basic financial statements

East Liverpool City School District

Balance Sheet

Governmental Funds

June 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$0	\$9,323,314	\$1,290,867	\$10,614,181
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	109,962	0	0	109,962
Accounts Receivable	80	0	148	228
Accrued Interest Receivable	3,068	0	0	3,068
Intergovernmental Receivable	112,143	42,212,407	630,801	42,955,351
Prepaid Items	35,335	0	302	35,637
Interfund Receivable	251,180	0	0	251,180
Inventory Held for Resale	0	0	22,124	22,124
Materials and Supplies Inventory	0	0	5,050	5,050
Taxes Receivable	4,123,008	0	517,402	4,640,410
<i>Total Assets</i>	<u>\$4,634,776</u>	<u>\$51,535,721</u>	<u>\$2,466,694</u>	<u>\$58,637,191</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$42,328	\$0	\$136,142	\$178,470
Accrued Wages and Benefits	1,545,361	0	439,371	1,984,732
Interfund Payable	0	0	251,180	251,180
Intergovernmental Payable	404,363	0	139,218	543,581
Deferred Revenue	3,939,537	42,212,407	846,728	46,998,672
Matured Compensated Absences Payable	94,848	0	3,122	97,970
Special Termination Benefits Payable	75,000	0	10,000	85,000
State Operating Loan Payable	1,504,000	0	0	1,504,000
<i>Total Liabilities</i>	<u>7,605,437</u>	<u>42,212,407</u>	<u>1,825,761</u>	<u>51,643,605</u>
Fund Balances				
Reserved for Encumbrances	240,510	12,855	176,583	429,948
Reserved for Bus Purchase	56,059	0	0	56,059
Reserved for Textbooks	530,596	0	0	530,596
Reserved for Property Taxes	183,471	0	20,806	204,277
Unreserved:				
Undesignated, (Deficit) Reported in:				
General Fund	(3,981,297)	0	0	(3,981,297)
Special Revenue Funds	0	0	(80,199)	(80,199)
Debt Service Fund	0	0	476,776	476,776
Capital Projects Funds	0	9,310,459	46,967	9,357,426
<i>Total Fund (Deficit) Balances</i>	<u>(2,970,661)</u>	<u>9,323,314</u>	<u>640,933</u>	<u>6,993,586</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,634,776</u>	<u>\$51,535,721</u>	<u>\$2,466,694</u>	<u>\$58,637,191</u>

See accompanying notes to the basic financial statements

East Liverpool City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2005

Total Governmental Funds Balances	\$6,993,586
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,762,650
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	391,149
School Facilities Monies	42,212,407
Grants	350,132

Total	42,953,688
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In the statement of activities, bond issuance cost are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	72,678
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Long-term liabilities, including bonds payable, compensated absences and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds:

School Improvement Bonds	(7,291,007)
Energy Conservation Loan	(222,207)
Capital Leases	(226,004)
Compensated Absences	(1,821,096)

Total	(9,560,314)
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<i>Net Assets of Governmental Activities</i>	\$45,222,288
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See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$4,120,315	\$0	\$443,330	\$4,563,645
Intergovernmental	17,334,902	29,543	5,396,613	22,761,058
Interest	48,706	149,269	8,227	206,202
Tuition and Fees	916,043	0	752	916,795
Extracurricular Activities	0	0	167,170	167,170
Charges for Services	0	0	138,653	138,653
Rentals	9,736	0	0	9,736
Contributions and Donations	3,031	0	20,072	23,103
Miscellaneous	413,450	0	75,614	489,064
<i>Total Revenues</i>	<u>22,846,183</u>	<u>178,812</u>	<u>6,250,431</u>	<u>29,275,426</u>
Expenditures				
Current:				
Instruction:				
Regular	12,044,265	0	2,515,011	14,559,276
Special	2,531,669	0	296,874	2,828,543
Vocational	838,668	0	58,838	897,506
Adult/Continuing	0	0	21,318	21,318
Support Services:				
Pupil	749,118	0	653,614	1,402,732
Instructional Staff	641,789	0	636,811	1,278,600
Board of Education	198,880	0	500	199,380
Administration	1,170,230	0	456,321	1,626,551
Fiscal	491,321	0	27,910	519,231
Business	44,595	0	0	44,595
Operation and Maintenance of Plant	2,544,892	0	5,890	2,550,782
Pupil Transportation	939,877	0	23,166	963,043
Central	0	0	19,134	19,134
Extracurricular Activities	228,756	0	164,362	393,118
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,231,497	1,231,497
Other Non-Instructional Services	0	0	211,392	211,392
Capital Outlay	0	741,895	283,160	1,025,055
Debt Service:				
Principal Retirement	88,821	0	500,021	588,842
Interest and Fiscal Charges	0	0	13,596	13,596
<i>Total Expenditures</i>	<u>22,512,881</u>	<u>741,895</u>	<u>7,119,415</u>	<u>30,374,191</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>333,302</u>	<u>(563,083)</u>	<u>(868,984)</u>	<u>(1,098,765)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	226,442	226,442
Transfers Out	(226,442)	0	0	(226,442)
<i>Total Other Financing Sources (Uses)</i>	<u>(226,442)</u>	<u>0</u>	<u>226,442</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	106,860	(563,083)	(642,542)	(1,098,765)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(3,077,521)</u>	<u>9,886,397</u>	<u>1,283,475</u>	<u>8,092,351</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$2,970,661)</u>	<u>\$9,323,314</u>	<u>\$640,933</u>	<u>\$6,993,586</u>

See accompanying notes to the basic financial statements

East Liverpool City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$1,098,765)

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

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

Capital Asset Additions	1,159,358	
Current Year Depreciation	(914,204)	
Total		245,154

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

Delinquent Property Taxes	39,984	
School Facilities Monies	(29,543)	
Grants	270,668	
Total		281,109

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

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

Energy Conservation Loan	91,028	
School Improvement Bonds	408,993	
Capital Leases Payable	88,821	
Total		588,842

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

Compensated Absences	300,146	
Pension Obligation	231,727	
Total		531,873

Change in Net Assets of Governmental Activities \$542,156

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$3,924,705	\$4,133,418	\$4,133,418	\$0
Intergovernmental	15,237,578	16,047,903	16,047,902	(1)
Interest	39,970	42,096	45,906	3,810
Tuition and Fees	921,731	970,748	967,539	(3,209)
Rentals	9,244	9,736	9,736	0
Contributions and Donations	2,878	3,031	3,031	0
Miscellaneous	395,615	415,359	413,668	(1,691)
<i>Total Revenues</i>	<u>20,531,721</u>	<u>21,622,291</u>	<u>21,621,200</u>	<u>(1,091)</u>
Expenditures				
Current:				
Instruction:				
Regular	11,268,085	12,252,313	12,206,010	46,303
Special	2,473,820	2,666,330	2,652,908	13,422
Vocational	799,891	871,075	853,006	18,069
Adult/Continuing	12,045	13,117	12,799	318
Support Services:				
Pupil	914,805	961,053	818,257	142,796
Instructional Staff	621,834	674,479	659,902	14,577
Board of Education	255,997	278,777	263,185	15,592
Administration	1,130,097	1,230,129	1,199,125	31,004
Fiscal	459,729	499,617	496,226	3,391
Business	139,269	144,666	144,485	181
Operation and Maintenance of Plant	2,481,908	2,679,730	2,557,873	121,857
Pupil Transportation	898,361	965,217	935,969	29,248
Extracurricular Activities	211,166	229,959	229,959	0
<i>Total Expenditures</i>	<u>21,667,007</u>	<u>23,466,462</u>	<u>23,029,704</u>	<u>436,758</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,135,286)</u>	<u>(1,844,171)</u>	<u>(1,408,504)</u>	<u>435,667</u>
Other Financing Sources (Uses)				
Proceeds of State Solvency Assistance Loan	190,851	201,000	201,000	0
Advances In	337,499	355,526	355,526	0
Advances Out	(506,297)	(506,297)	(506,297)	0
Transfers Out	(227,582)	(226,442)	(226,442)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(205,529)</u>	<u>(176,213)</u>	<u>(176,213)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(1,340,815)</u>	<u>(2,020,384)</u>	<u>(1,584,717)</u>	<u>435,667</u>
<i>Fund Balance Beginning of Year</i>	<u>1,276,799</u>	<u>1,276,799</u>	<u>1,276,799</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>135,042</u>	<u>135,042</u>	<u>135,042</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$71,026</u>	<u>(\$608,543)</u>	<u>(\$172,876)</u>	<u>\$435,667</u>

See accompanying notes to the basic financial statements

East Liverpool City School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	Private Purpose Trust	
	Endowment	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,623	<u>\$54,596</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$54,596</u>
Net Assets		
Held in Trust for Scholarships	<u>\$16,623</u>	

See accompanying notes to the basic financial statements

East Liverpool City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2005

	<u>Endowment</u>
Additions	
Interest	\$129
Deductions	
Scholarships	<u>2,400</u>
<i>Change in Net Assets</i>	(2,271)
<i>Net Assets Beginning of Year</i>	<u>18,894</u>
<i>Net Assets End of Year</i>	<u><u>\$16,623</u></u>

See accompanying notes to the basic financial statements

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five member Board and provides educational services as mandated by State and Federal agencies. It is staffed by 120 non-certificated employees, 244 certified full-time teaching personnel and 26 administrative employees who provide services to 2,912 students and other community members. The School District currently operates four instructional buildings, one administrative building and one bus garage.

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

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

Reporting Entity

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

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The following activities are included within the reporting entity:

Non-Public Schools Within the School District boundaries, St. Aloysius Catholic School is operated through the Catholic Diocese of Youngstown and East Liverpool Christian School is operated as a private school. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore no business-type activities are presented.

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

B. Fund Accounting

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

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

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

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

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

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

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

E. Cash and Cash Equivalents

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

During 2005, investments were limited to federal home loan bank bonds, federal home loan mortgage corporation notes, federal national mortgage association discount notes, federal national mortgage association notes and STAROhio.

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

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$48,706, which includes \$46,592 assigned from other School District funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

H. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by State statute to be set aside to create a reserve for textbooks. See Note 20 for additional information regarding set-asides.

I. Deferred Charges

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

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

K. Interfund Balances

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

L. Compensated Absences

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

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Interfund Activity

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

O. Fund Balance Reserves

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

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$45,528,843 of which \$471,721 is restricted by enabling legislation. Net assets restricted for other purposes include operation of instructional services, food service operations and extracurricular activities.

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

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

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

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 3 - Change in Accounting Principles

A. Change in Accounting Principles

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes new disclosure requirements for risk associated with deposits and investments.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not materially affect the presentation of the financial statements of the School District.

B. Restatement of Net Assets

During fiscal year 2005 the School District determined capital assets were understated and the Ohio School Facilities project was overstated . These adjustments had the following effects on net assets.

	Governmental Activities
Net Assets at June 30, 2004	\$51,589,432
Adjustment for Capital Assets	325,804
Adjustment for Ohio School Facility Commission	(7,235,104)
Restated Net Assets At June 30, 2004	<u>\$44,680,132</u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 4 – Accountability and Compliance

A. Accountability

Fund balances at June 30, 2005, included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
General Fund	\$2,970,661
<i>Special Revenue Funds:</i>	
Food Service	103,318
AfterCare	2,717
Local Professional Development	1,505
Disadvantaged Pupil Impact Aid	194,173
Vocational Education Enhancement	30
Title VI-B	44,914
Vocational Education	8,591
Other Federal Grants	7,877
<i>Capital Projects Fund:</i>	
School Net	7,160

B. Compliance

The Ohio Reads special revenue fund had original appropriations in excess of original estimated resources plus carryover balances of \$5,330 contrary to Section 5705.39, Ohio Revised Code.

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

	<u>Final</u>		
	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<i>Special Revenue Funds:</i>			
Food Service			
Operation of Non-Instructional Services -			
Food Service Operation	\$1,149,282	\$1,149,608	\$326
Title I			
Instruction - Regular Instruction	1,028,813	1,029,204	391

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

	Estimated Resources Plus Carryover Balances	Appropriations	Excess
General Fund	\$23,455,616	\$24,064,159	\$608,543
<i>Special Revenue Funds:</i>			
Ohio Reads Grant	70,271	75,601	5,330

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

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Net Change in Fund Balance

GAAP Basis	\$106,860
Revenue Accruals	(1,224,983)
Advances In	355,526
State Solvency Assistance Loan	201,000
Expenditure Accruals	(233,985)
Advances Out	(506,297)
Encumbrances	(282,838)
Budget Basis	<u><u>(\$1,584,717)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

3. Written repurchase agreements in the securities listed above provided;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,514,769 of the School District's bank balance of \$2,829,715 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

	Carrying and Fair Value	Maturity
Federal Home Loan Bank Bond	\$1,989,400	December 15, 2005
Federal Home Loan Mortgage Corporation Note	2,975,790	August 15, 2005
Federal National Mortgage Association Discount Note	998,170	July 22, 2005
Federal National Mortgage Association Note	625,125	March 7, 2006
STAROhio	260,761	33 Days
<i>Totals</i>	<u>\$6,849,246</u>	

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

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

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

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2005:

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

<u>Investment</u>	<u>Percentage of Investments</u>
Federal Home Loan Bank Bond	29.05%
Federal Home Loan Mortgage Corporation Note	43.45%
Federal National Mortgage Association Discount Note	14.57%
Federal National Mortgage Association Note	9.13%
STAROhio	3.80%

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Columbiana County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$183,471 in the general fund, \$17,687 in the bond retirement debt service fund and \$3,119 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2004, was \$196,574 in the general fund, \$20,712 in the bond retirement debt service fund and 3,236 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second - Half Collections		2005 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$133,311,960	82.79%	\$142,964,270	83.46%
Public Utility	9,934,030	6.17	10,912,450	6.37
Tangible Personal Property	17,784,780	11.04	17,412,410	10.17
Total Assessed Value	<u>\$161,030,770</u>	<u>100.00%</u>	<u>\$171,289,130</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.60		\$37.60	

Note 8 – Interfund Transfers and Balances

A. Interfund Transfers

Transfers To	Transfers From General
<i>Nonmajor Funds:</i>	
Bond Retirement	\$104,623
Food Service	48,517
Local Grants	7
After Care	11,517
Extracurricular Activities	40,938
School Net	3,945
Summer Intervention Grant	1,456
Adult Basic	15,336
Vocational Education Equipment Grant	103
Total	<u>\$226,442</u>

The general fund transferred \$104,623 to the bond retirement debt service fund for the energy conservation loan principal and interest payments. The reason for the remaining transfers was to help provide funding for fiscal year 2005.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

B. Interfund Balance

Interfund Payable	Interfund Receivable General Fund
Nonmajor Funds:	
Food Service	74,302
Extracurricular	2,131
Student Intervention	1,988
Ohio Reads Grant	1,600
Title VI-B	121,693
Vocational Education	19,411
Title I	16,342
Title V	410
Reducing Class Size	39
Miscellaneous Federal Grant	6,104
SchoolNet	7,160
<i>Total All Funds</i>	<i>\$251,180</i>

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

Note 9 - Receivables

Receivables at June 30, 2005, consisted of property taxes, accounts (rent, student fees and tuition), interfund, grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables except for the Ohio School Facilities Commission are expected to be collected within one year.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Ohio School Facilities Commission	\$42,212,407
Title I Grant	301,596
Title VI-B Grant	219,584
Tuition	112,143
Reducing Class Size Grant	46,548
Vocational Education Grant	19,052
Miscellaneous Federal Grant	16,418
Summer Intervention Grant	14,215
Preschool Grant	5,983
Drug Free Schools Grant	4,642
Ohio Reads Grant	1,600
Title VI Grant	1,163
Total	<u><u>\$42,955,351</u></u>

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

As a result of a lawsuit challenging among other matters original enrollment projections, the Ohio School Facilities Commission developed revised enrollment projections and presented four additional options for the construction and renovation project. The option selected by the Board of Education involves renovations to four school buildings, the construction of the one school building and selective demolition of portions of one school building. The State share of the project budget is \$44,746,918 (87 percent of the total) and the local share of the project budget is \$6,687,674 (13 percent of the total).

Note 10 – Note Debt

During 2004 and 2005, the School District received interest free State solvency assistance loans in the amount of \$2,606,000 and \$201,000, respectively. The State solvency assistance loans will be paid from the general fund with school foundation revenue. A liability for the notes is reflected in the general fund which received the proceeds.

	<u>Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/2005</u>
Fiscal Year 2004				
SolvencyAssistance Loan	\$2,606,000	\$0	\$1,303,000	\$1,303,000
Fiscal Year 2005				
SolvencyAssistance Loan	0	201,000	0	201,000

In fiscal years 2006 and 2007, the School District will pay \$1,403,500 and \$100,500, respectively, to retire the loans.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$42,269	\$0	\$0	\$42,269
Construction in Progress	633,296	741,895	0	1,375,191
<i>Total Nondepreciable Capital Assets</i>	<u>675,565</u>	<u>741,895</u>	<u>0</u>	<u>1,417,460</u>
<i>Capital Assets being Depreciated:</i>				
Land Improvements	1,342,058	0	0	1,342,058
Buildings and Improvements	11,811,581	14,427	0	11,826,008
Furniture and Equipment	5,299,576	403,036	0	5,702,612
Vehicles	1,499,268	0	0	1,499,268
<i>Total Capital Assets being Depreciated</i>	<u>19,952,483</u>	<u>417,463</u>	<u>0</u>	<u>20,369,946</u>
Less Accumulated Depreciation:				
Land Improvements	(944,840)	(48,063)	0	(992,903)
Buildings and Improvements	(10,669,625)	(220,547)	0	(10,890,172)
Furniture and Equipment	(3,493,973)	(561,934)	0	(4,055,907)
Vehicles	(1,002,114)	(83,660)	0	(1,085,774)
<i>Total Accumulated Depreciation</i>	<u>(16,110,552)</u>	<u>(914,204) *</u>	<u>0</u>	<u>(17,024,756)</u>
<i>Total Assets being Depreciated, Net</i>	<u>3,841,931</u>	<u>(496,741)</u>	<u>0</u>	<u>3,345,190</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$4,517,496</u>	<u>\$245,154</u>	<u>\$0</u>	<u>\$4,762,650</u>

*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$624,846
Special	2,814
Vocational	22,600
Support Services:	
Pupils	21,885
Instructional Staff	5,953
Administration	38,996
Fiscal	429
Business	5,765
Operation and Maintenance of Plant	22,695
Pupil Transportation	65,626
Central	18,486
Operation of Non-Instructional Services:	
Food Service Operations	5,562
Extracurricular Activities	78,547
Total Depreciation Expense	<u>\$914,204</u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Selective Insurance Company of South Carolina for various types of insurance. Coverage provided is as follows:

Types of Coverage	Coverage Amount
Property: All Building and Contents (\$1,000 deductible)	\$77,618,116
Flood: Field, Building and Contents (\$25,000 deductible)	1,000,000
Inland Marine Coverage (\$1,000 deductible)	1,800,000
Crime Insurance (\$500 deductible)	50,000
Automobile (\$500 deductible)	2,000,000
Uninsured (\$500 deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000

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

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

Note 13 - Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$121,686,

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

\$278,845, and \$276,552 respectively; 89.23 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,669,918, \$1,772,889 and \$1,745,887 respectively; 60.65 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$6,684 made by the School District and \$21,012 made by the plan members.

C. Social Security System

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$128,455 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established as \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$100,355 to fund health care benefits, including surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$267.5 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 15 - Other Employee Benefits

A. Compensated Absences

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

B. Life Insurance

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

C. Health Insurance

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

D. Retirement Incentive Bonus

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

Note 16 - Jointly Governed Organization

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

is generated from State funding and charges for services. The School District paid ACCESS \$77,825 for services provided during the fiscal year ending June 30, 2005. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 Debartolo Place, Youngstown, Ohio 44512.

Note 17 - General Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due in One Year
Governmental-Type Activities					
School Improvement Bonds QZAB 2003 0%	\$7,700,000	\$0	\$408,993	\$7,291,007	\$408,993
Energy Conservation Loan 5%	313,235	0	91,028	222,207	95,686
Capital Leases Payable	314,825	0	88,821	226,004	84,162
Compensated Absences	2,121,242	97,960	398,106	1,821,096	147,300
<i>Total General Long - Term Obligations</i>	<u>\$10,449,302</u>	<u>\$97,960</u>	<u>\$986,948</u>	<u>\$9,560,314</u>	<u>\$736,141</u>

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

As indicated below, the principal requirement amounts do not total \$7,700,000. The School District will be making annual sinking fund payments over a fifteen year period to Bank One Trust Company, its escrow agent which will invest the sinking fund dollars at an interest rate that will generate at least \$1,974,094 over the loan period, the difference between the sinking payments and the bond principal. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the QZABs to be paid in full in March 2018. As of June 30, 2005, none of the proceeds have been spent.

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

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The School District's overall legal debt margin was \$8,699,373 with an unvoted debt margin of \$161,034 at June 30, 2005. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2005, are as follows:

<i>Fiscal Year</i>	2003 School Improvement QZAB Bonds	1997 Energy Conservation Loan	
	Principal	Principal	Interest
2006	\$408,993	\$95,686	\$8,937
2007	408,993	100,581	4,042
2008	408,993	25,940	216
2009	408,993	0	0
2010	408,993	0	0
2011-2015	2,044,967	0	0
2016-2018	1,226,980	0	0
	<u>\$5,316,912</u>	<u>\$222,207</u>	<u>\$13,195</u>

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

Note 19 - Capital Leases

The School District has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$385,400. Accumulated depreciation as of June 30, 2005 was \$77,080, leaving a current book value of \$308,320. The lease is interest free.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005.

<u>Year Ending December 31,</u>	
2006	\$84,162
2007	84,162
2008	<u>57,680</u>
Present Value of Minimum Lease Payments	<u><u>\$226,004</u></u>

Note 20 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be a set-aside.

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

	Textbooks	Capital Improvements	Reserve for Budget Stabilization
Set-Aside Reserve Balance as of June 30, 2004	<u>\$766,931</u>	<u>\$520,848</u>	<u>\$135,706</u>
Current Year Set-Aside Requirement	0	0	0
Qualifying Disbursements	(236,335)	(563,585)	0
Offset	0	0	(135,706)
Total	<u><u>\$530,596</u></u>	<u><u>(\$42,737)</u></u>	<u><u>\$0</u></u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$530,596</u>	<u>\$0</u>	<u>\$0</u>
Set-Aside Reserve Balance as of June 30, 2005	<u><u>\$530,596</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The School District has qualifying disbursements and offsets during fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for set-asides at the end of the fiscal year was \$530,596.

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$122,595		\$122,595
National School Breakfast Program	05PU-2004 05PU-2005	10.553	\$36,717 123,574		\$36,717 123,574	
			160,291		160,291	
National School Lunch Program	LLP1-2004 LLP1-2005 LLP4-2004 LLP4-2005	10.555	314 630 126,711 429,766		314 630 126,711 429,766	
			557,421		557,421	
Subtotal - Nutrition Cluster			717,712	122,595	717,712	122,595
Child & Adult Care Programs	CCMO-2004 CCMO-2005	10.558	352 2,641		352 2,641	
			2,993		2,993	
Total U. S. Department of Agriculture			720,705	122,595	720,705	122,595
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education - State Grant Program	ABS1-2001 ABS1-2004	84.002	-15,259 -2,615		15,259 6,810	
Total Adult Education - State Grant Program			-17,874		22,069	
Grants to Local Educational Agencies (ESEA Title I Part A)	C1-S1-2000 C1-S1-2004 C1-S1-2005	84.010	-148,323 -85,135 1,198,018		0 249,627 1,113,883	
Total Grants to Local Educational Agencies (Title 1)			964,560		1,363,510	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BEC-2003-P 6BSF-2004 6BSF-2005	84.027	-42 -34,839 630,901		42 108,514 598,310	
Total Special Education Grants to States			596,020		706,866	
Special Education - Preschool Grants	PGS1-2004 PGS1-2005	84.173	-134 20,208		3,034 18,079	
Total Special Education - Preschool Grants			20,074		21,113	
Total Special Education Cluster			616,094		727,979	
School Maintenance and Operational Assistance (Impact aid/SAFA)	FY03	84.041	3,251		2,149	
Vocational Education - Carl D. Perkins Act of 1984	2OC1-2004 2OC1-2005	84.048	0 57,193		10,252 53,543	
Total Vocational Education - Carl D. Perkins			57,193		63,795	
Safe and Drug Free Schools Grant	DRS1-2004 DRS1-2005	84.186	-7,459 33,675 17,295		2,945 28,742 17,295	
Total Safe and Drug Free Schools Grant			43,511		48,982	
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2001	84.281	-467		0	
Innovative Educational Program	C2-S1-2004 C2-S1-2005	84.298	-4,920 19,509		4,330 14,535	
Total Innovative Educational Program			14,589		18,865	

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Technology Literacy Challenge Fund Grant	TJ-S1-2004	84.318	-3,523		18,374	
	TJ-S1-2005		31,359		29,705	
Total Technology Literacy Challenge Fund Grant			27,836		48,079	
Comprehensive School Reform Demonstration	RFCC-2004	84.332	-360		12,853	
	RFCC-2005		32,944		39,101	
	RFS2-2003		36,492		37,706	
	RFS3-2004		45,142		30,486	
Total Comprehensive School Reform Demonstration			114,218		120,146	
Title VI-B Rural and Low Income	RUS1-2005	84.358	88,878		81,064	
Title II-A, Improving Teacher Quality State Grants	TRS1-2004	84.367	-58,239		14,582	
	TRS1-2005		351,978		318,573	
Total Title II-A, Improving Teacher Quality			293,739		333,155	
Total Department of Education			2,205,528	0	2,829,793	0
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Jobs and Family Services: passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Mediical Assistance Program - Title XIX State Children's Health Insurance Program (SCHIP)		93.767	22,956		22,956	
Community Aternative Funding Systems		93.778	161,576		186,898	
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>						
<i>Passed through Ohio Emergency Management Agency:</i>						
FEMA Reimbursement	DR-029-026DD	97.036	38,838		38,838	
Totals			<u>3,149,603</u>	<u>\$122,595</u>	<u>3,799,190</u>	<u>\$122,595</u>

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 31, 2007. We noted the District's declaration of fiscal emergency raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-016, 2005-017, and 2005-018.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-016, 2005-017, and 2005-018 listed above to be material weaknesses. In a separate letter to the District's management dated May 31, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2005-001 through 2005-018. In a separate letter to the District's management dated May 31, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

May 31, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of East Liverpool City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005. However, in a separate to the District's management date May 31, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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

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

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

Mary Taylor, CPA
Auditor of State

May 31, 2007

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list)	Child Nutrition Cluster (#10.550, 10.553, 10.555, 10.556, 10.559), Title 1 (#84.010) and Title II, Part A (#84.367)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 states that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001 (Continued)

During our review of the School district's payroll expenditures from July 1, 2004 through June 30, 2005 it was noted that Amy Swoger received one stipend payment in excess of her agreed upon contract. No evidence could be found that any supplemental contract between Amy Swoger and the East Liverpool Schools Board of Education existed for the payment of this stipend. The stipend payment was as follows:

Date	Check #	Amount
October 15, 2004	512711	\$1,183.82

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Amy Swoger, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of one thousand one hundred eighty three dollars and eighty two cents (1,183.82) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Amy Swoger in the amount of one thousand one hundred eighty three dollars and eighty two cents (\$1,183.82). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-002

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 states that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 Ms. Candace Nicholson received three stipend payments which totaled five thousand two hundred seventy nine dollars and eighty two cents (\$5,279.82) in excess of Ms. Nicholson's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of these stipends. The stipend payments were as follows:

Date	Check #	Amount
August 20, 2004	511630	\$2,238.66
September 3, 2004	511867	\$2,238.66
September 2, 2005	517973	\$ 802.50
Total		\$5,279.82

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-002 (Continued)

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Candace Nicholson, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of five thousand two hundred seventy nine dollars and eighty two cents (\$5,279.82) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Candace Nicholson in the amount of five thousand two hundred seventy nine dollars and eighty two cents (\$5,279.82). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-003

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.08 establishes the Board of Education as the sole authority to “fix the salaries of its teachers” and may, where it deems necessary authorize compensation in addition to such base salary. The Ohio School Law Guide further clarifies this in Section 7.42.

During our review of the School district's payroll for the period June 1, 2004 through July 30, 2005 Mr. Jackie Cunningham Jr. received stipend payments totaling seven thousand eight hundred thirty dollars (\$7,830) in excess of Mr. Cunningham's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of these stipends. The stipend payments were as follows:

Date	Check #	Contracted Pay	Stipend Paid	Total
September 17, 2004	512159	\$1,759.06	\$ 300.00	\$2,059.06
October 15, 2004	512590	\$1,759.06	\$ 300.00	\$2,059.06
October 29, 2004	512808	\$1,759.06	\$ 570.00	\$2,329.06
November 12, 2004	513026	\$1,759.06	\$ 300.00	\$2,059.06
November 24, 2004	513305	\$1,759.06	\$ 270.00	\$2,029.06
December 10, 2004	513522	\$1,759.06	\$ 210.00	\$1,969.06
December 23, 2004	513696	\$1,759.06	\$ 300.00	\$2,059.06
January 21, 2005	514173	\$1,759.06	\$ 240.00	\$1,999.06
February 18, 2005	514630	\$1,834.06	\$ 570.00	\$2,404.06
March 4, 2005	514854	\$1,759.06	\$ 300.00	\$2,059.06
March 18, 2005	515073	\$1,759.06	\$ 300.00	\$2,059.06
April 29, 2005	515748	\$1,759.06	\$ 570.00	\$2,329.06
June 10, 2005	516404	\$1,759.06	\$ 600.00	\$2,359.06
July 22, 2005	517318		\$3,000.00	\$3,000.00
Total			\$7,830.00	

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-003 (Continued)

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Jackie Cunningham Jr., Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of seven thousand eight hundred thirty dollars, (\$7,830) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Jackie Cunningham Jr. in the amount of seven thousand eight hundred thirty dollars, (\$7,830). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-004

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.08 establishes the Board of Education as the sole authority to "fix the salaries of its teachers" and may, where it deems necessary authorize compensation in addition to such base salary. The Ohio School Law Guide further clarifies this in Section 7.42.

During our review of the School district's payroll for the period June 1, 2004 through July 30, 2005 Mr. Jackie Cunningham Jr. received stipend payments totaling two thousand nine hundred forty dollars (\$2,940) in excess of Mr. Cunningham's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of these stipends. The stipend payments were as follows:

Date	Check #	Contracted Pay	Stipend Paid	Total
June 25, 2004	510919	\$0	\$1,095.00	\$1,095.00
July 09, 2004	511156	\$0	\$ 900.00	\$ 900.00
July 23, 2004	511385	\$0	\$ 945.00	\$ 945.00
Total			\$2,940	

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Jackie Cunningham Jr., Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Nancy Radkin, Interim Treasurer, and her surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of two thousand nine hundred forty dollars (\$2,940) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Jackie Cunningham Jr. in the amount of two thousand nine hundred forty dollars (\$2,940). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-005

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3313.47 that a board of education shall have the management and control of all public schools and shall have the authority to appoint any non-teaching employees to be retained as it deems necessary. While Ohio Revised Code Section 3313.47 states that a board of education may grant the superintendent the ability to make such appointments the board of education remains the employer. Thus, the board of education would be the sole authority to authorize any supplemental compensation to a non-teaching employee. The Ohio School Law Guide further clarifies this in Section 8.01.

During our review of the School district's payroll for the period June 1, 2004 through July 30, 2005 Ms. Jean E. Grafton received stipend payments totaling seven thousand six hundred eighty three dollars and eight cents (\$7,683.08) in excess of Ms. Jean E. Grafton's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of these stipends. The stipend payments were as follows:

Date	Check #	Contracted Pay	Stipend Paid	Total
September 17, 2004	189646	\$ 981.29	\$ 294.40	\$1,275.69
October 1, 2004	190046	\$ 981.29	\$ 331.20	\$1,312.49
October 15, 2004	190312	\$1,051.95	\$ 375.36	\$1,427.31
October 29, 2004	190572	\$1,000.92	\$ 375.40	\$1,376.32
November 12, 2004	190867	\$1,009.80	\$ 337.86	\$1,347.66
November 26, 2004	191214	\$1,000.92	\$ 337.86	\$1,338.78
December 10, 2004	191509	\$1,000.92	\$ 300.32	\$1,301.24
December 23, 2004	191726	\$1,000.92	\$ 375.40	\$1,376.32
January 7, 2005	192066	\$1,000.92	\$ 187.70	\$1,188.62
January 21, 2005	193321	\$1,000.92	\$ 187.70	\$1,188.62
February 4, 2005	192642	\$1,000.92	\$ 300.32	\$1,301.24
February 18, 2005	192900	\$1,000.92	\$ 375.40	\$1,376.32
March 4, 2005	193215	\$1,000.92	\$ 375.40	\$1,376.32
March 18, 2005	193550	\$1,000.92	\$ 262.78	\$1,263.70
April 1, 2005	193787	\$1,000.92	\$ 337.86	\$1,338.78
April 15, 2005	194151	\$1,000.92	\$ 150.16	\$1,151.08
April 29, 2005	194423	\$1,000.92	\$ 375.40	\$1,376.32
May 13, 2005	194688	\$1,000.92	\$ 337.86	\$1,338.78
May 27, 2005	194954	\$1,000.92	\$ 375.40	\$1,376.32
June 10, 2005	195197	\$1,000.92	\$ 112.62	\$1,113.54
June 24, 2005	195444	\$1,000.95	\$ 375.40	\$1,376.35
September 16, 2005	196687	\$1,000.92	\$ 187.70	\$1,188.62
September 30, 2005	196895	\$1,000.92	\$ 337.86	\$1,338.78
October 14, 2005	197098	\$1,000.92	\$ 375.40	\$1,376.32
October 28, 2005	197282		\$ 300.32	\$ 300.32
Total			\$7,683.08	

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-005 (Continued)

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Jean E. Grafton, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of seven thousand six hundred seventy eighty three dollars and eight cents (\$7,683.08) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Jean E. Grafton in the amount of seven thousand six hundred eighty three dollars and eight cents (\$7,683.08). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-006

Finding for Recovery – Repaid Under Audit – Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

During our review of the School district's payroll for the period July 1, 2004 through June 30, 2005 Mr. John Ball received one stipend payment of two thousand two hundred dollars (\$2,200) which was in excess of Mr. Ball's contracted annual salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of the stipend. The stipend payment was as follows:

Date	Check #	Amount
June 25, 2004	188178	\$2,200

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against John Ball, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Nancy Radkin, Interim Treasurer, and her surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of two thousand two hundred dollars (\$2,200) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for John Ball in the amount of two thousand two hundred dollars (\$2,200). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-007

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 Ms. Laurie Trotter received two stipend payments which totaled four thousand four hundred seventy seven dollars and thirty two (\$4,477.32) in excess of Ms. Trotter's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of these stipends. The stipend payments were as follows:

Date	Check #	Amount
August 20, 2004	189043	\$2,238.66
September 3, 2005	189319	\$2,238.66
Total		\$4,477.32

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Laurie Trotter, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of four thousand four hundred seventy seven dollars and thirty two cents (\$4,477.32) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Laurie Trotter in the amount of four thousand four hundred seventy seven dollars and thirty two cents (\$4,477.32). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-008

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 Ms. Laurie Trotter received one stipend payment which totaled two thousand two hundred dollars (\$2,200) in excess of Ms. Trotter's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of this stipend. The stipend payment was as follows:

Date	Check #	Amount
June 25, 2004	188196	\$2,200.00
Total		\$2,200.00

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-008 (Continued)

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Laurie Trotter, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Nancy Radkin, Interim Treasurer, and her surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of two thousand two hundred dollars (\$2,200) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Laurie Trotter in the amount of two thousand two hundred dollars (\$2,200). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-009

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 and Ohio School Law Guide Section 3.47 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

During our review of the School district's payroll for the period July 1, 2004 through July 30, 2005 Mr. Patrick Poling received one stipend payment totaling two thousand nine hundred eighty five dollars (\$2,985) in excess of Mr. Poling's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of this stipend. The stipend payment was as follows:

Date	Check #	Amount
October 15, 2004	512628	\$2,985

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Patrick Poling, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of two thousand nine hundred eighty five dollars (\$2,985) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Patrick Poling in the amount of two thousand nine hundred eighty five dollars (\$2,985). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-010

Finding for Recovery – Repaid Under Audit – Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3313.47 provides that a board of education shall have the management and control of all public schools and shall have the authority to appoint any non-teaching employees to be retained as it deems necessary. While Ohio Revised Code Section 3313.47 states that a board of education may grant the superintendent the ability to make such appointments the board of education remains the employer. Thus, the board of education would be the sole authority to authorize any supplemental compensation to a non-teaching employee. The Ohio School Law Guide further clarifies this in Section 8.01.

During our review of the School district's payroll expenditures from July 1, 2004 through June 30, 2005 it was noted that Sally Lynn received one stipend payment in excess of her agreed upon contract. No evidence could be found that any supplemental contract between Sally Lynn and the East Liverpool Schools Board of Education existed for the payment of this stipend. The stipend payment was as follows:

Date	Check #	Amount
August 20, 2004	511628	\$1,488.94

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Sally Lynn, Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of one thousand four hundred eighty eight dollars and ninety four cents (\$1,488.94) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Sally Lynn in the amount of one thousand four hundred eighty eight dollars and ninety four cents. (\$1,488.94). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-011

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.02 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any such contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies this in Section 3.47.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-011 (Continued)

During our review of the School district's payroll for the period July 1, 2004 through July 30, 2005 Ms. Yvonne Trotter received two stipend payments totaling four thousand four hundred seventy seven dollars and thirty three cents (\$4,477.33) in excess of Ms. Trotter's annual contracted salary. No supplemental contract or a resolution of the Board of Education was found to exist which would allow for the payment of these stipends. The stipend payments were as follows:

Date	Check #	Amount
August 20, 2004	511638	\$2,238.67
September 3, 2004	511863	\$2,238.66
Total		\$4,477.33

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Yvonne Trotter , Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, and Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America jointly and severally in the amount of four thousand four hundred seventy seven dollars and thirty three cents (\$4,477.33) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for Yvonne Trotter in the amount of four thousand four hundred seventy seven dollars and thirty three cents (\$4,477.33). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-012

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.08 establishes the Board of Education as the sole authority to "fix the salaries of its teachers" and may, where it deems necessary authorize compensation in addition to such base salary. Additionally, Ohio Revised Code Section 3319.02 states that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies these provisions in Sections 7.42 and 3.47.

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 eight school district employees received stipend payments in excess of their annual contracted salary. Through our inquiries and the available documentation it was determined these stipends had been approved for payment by Douglas Hiscox, Superintendent of Schools without formal approval from the Board of Education or requiring the employees to enter into supplemental contract for additional services. The stipends paid to the eight individuals were as follows:

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-012 (Continued)

Name	Amount
Yvonne Trotter	\$ 4,477.33
Candace Nicholson	\$ 5,279.82
Jackie Cunningham	\$ 7,830.00
Patrick Poling	\$ 2,985.00
Amy Swoger	\$ 1,183.82
Sally Lynn	\$ 1,488.94
Laurie Trotter	\$ 4,477.32
Jean Grafton	\$ 7,683.08
Total	\$35,405.31

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, Daniel Telzrow, Treasurer, and his surety company Travelers Casualty and Surety Company of America, and the eight individuals listed above, jointly and severally in the amount of thirty five thousand four hundred five dollars and thirty one cents (\$35,405.31) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for the employees listed above in the amount of thirty five thousand four hundred five dollars and thirty one cents. (\$35,405.31). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-013

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.08 establishes the Board of Education as the sole authority to “fix the salaries of its teachers” and may, where it deems necessary authorize compensation in addition to such base salary. Additionally, Ohio Revised Code Section 3319.02 states that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies these provisions in Sections 7.42 and 3.47.

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 three school district employees received stipend payments in excess of their annual contracted salary. Through our inquiries and the available documentation it was determined these stipends had been approved for payment by Douglas Hiscox, Superintendent of Schools without formal approval from the Board of Education or requiring the employees to enter into supplemental contract for additional services. The stipends paid to the three individuals were as follows:

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-013 (Continued)

Date	Amount
Jackie Cunningham	\$ 2,940.00
John Ball	\$ 2,200.00
Laurie Trotter	\$ 2,200.00
Total	\$ 7,340.00

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Douglas Hiscox, Superintendent, his surety company Travelers Casualty and Surety Company of America, Nancy Radkin, Interim Treasurer, and her surety company Travelers Casualty and Surety Company of America, and the three individuals listed above, jointly and severally in the amount of seven thousand three hundred forty dollars (\$7,340.00) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for the employees listed above in the amount of seven thousand three hundred forty dollars (\$7,340). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-014

Finding for Recovery – Repaid Under Audit – Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.08 establishes the Board of Education as the sole authority to "fix the salaries of its teachers" and may, where it deems necessary authorize compensation in addition to such base salary. Additionally, Ohio Revised Code Section 3319.02 and Ohio School Law Guide Section 3.47 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies these provisions in Sections 7.42 and 3.47.

Ohio Revised Code Section 3313.31 provides the following: The treasurer of a school shall be the "chief fiscal officer of the school district, [and] shall be responsible for the financial affairs of the district". Ohio Revised Code Section 3313.51, states, "No moneys of a school district shall be paid out except on a check signed by the Treasurer:

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 it was determined that eight school district employees received stipend payments in excess of their annual contracted salary. These stipends were paid without formal approval from the Board of Education or requiring the employees to enter into supplemental contract for additional services. The school district's treasurer paid these stipends without evidence that the Board of Education had approved the stipends for payment. The stipends paid to the eight individuals were as follows:

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005 (Continued)**

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

FINDING NUMBER 2005-014 (Continued)

Date	Amount
Yvonne Trotter	\$ 4,477.33
Candace Nicholson	\$ 5,279.82
Jackie Cunningham	\$ 7,830.00
Patrick Poling	\$ 2,985.00
Amy Swoger	\$ 1,183.82
Sally Lynn	\$ 1,488.94
Laurie Trotter	\$ 4,477.32
Jean Grafton	\$ 7,683.08
Total	\$35,405.31

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Daniel Telzrow, Treasurer, his surety company Travelers Casualty and Surety Company of America, Douglas Hiscox, Superintendent, and his surety company Travelers Casualty and Surety Company of America, and the nine individuals listed above, jointly and severally in the amount of thirty five thousand four hundred five dollars and thirty one cents (\$35,405.31) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for the employees listed above in the amount of thirty five thousand four hundred five dollars and thirty one cents (\$35,405.31). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-015

Finding for Recovery– Repaid Under Audit– Unapproved Compensation for Supplemental Services

Ohio Revised Code Section 3319.08 establishes the Board of Education as the sole authority to “fix the salaries of its teachers” and may, where it deems necessary authorize compensation in addition to such base salary. Additionally, Ohio Revised Code Section 3319.02 and Ohio School Law Guide Section 3.47 state that a board of education may appoint and make written contracts with one or more administrators as it deems necessary. The board of education is the sole body with the authority to make revisions or alterations to any contract, including an increase in the compensation provided therein. The Ohio School Law Guide further clarifies these provisions in Sections 7.42 and 3.47.

Ohio Revised Code Section 3313.3, provides the following: The treasurer of a school shall be the “chief fiscal officer of the school district, [and] shall be responsible for the financial affairs of the district”. Ohio Revised Code Section 3313.51, states, “No moneys of a school district shall be paid out except on a check signed by the Treasurer:

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-015 (Continued)

During our review of the School district's payroll for the period July 1, 2004 through September 30, 2005 it was determined that three school district employees received stipend payments in excess of their annual contracted salary. These stipends were paid without formal approval from the Board of Education or requiring the employees to enter into supplemental contract for additional services. The school district's treasurer paid these stipends without evidence that the Board of Education had approved the stipends for payment. The stipends paid to the three individuals were as follows:

Date	Amount
Jackie Cunningham	\$ 2,940.00
John Ball	\$ 2,200.00
Laurie Trotter	\$ 2,200.00
Total	\$ 7,340.00

Nancy Radkin , Interim Treasurer, her surety company Travelers Casualty and Surety Company of America, Douglas Hiscox, Superintendent, and his surety company Travelers Casualty and Surety Company of America, and the three individuals listed above, jointly and severally in the amount of seven thousand three hundred forty dollars (\$7,340.00) and in favor of the East Liverpool School District. On May 24, 2007, the East Liverpool City School Board adopted Resolution #07-05-152 which effectively provided retroactive approval for the supplemental contract for the employees listed above in the amount of seven thousand three hundred forty dollars (\$7,340). In addition, on August 20, 2007 the East Liverpool City School District's Financial Planning and Supervision Commission approved Resolution # 035-07 which indicates the Commissions approval of the expenditures listed in the Board of Educations Resolution # 07-05-152.

FINDING NUMBER 2005-016

Ohio Revised Code § 5705.36 (A) (2), states that upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officers certification is reasonable, the commission shall certify an amended certificate reflecting the deficiency or excess.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

During our budgetary analysis, we found in fiscal year 2005 the School District had large variances between budgetary and actual receipts in the following funds:

Number/Fund	Estimated Receipts	Actual Receipts	Variance
001 General	\$22,200,233	\$21,844,267	\$(355,966)
018 Public School Support	68,426	55,039	(13,387)
416 Teacher Development	53,351	35,852	(17,499)
432 Management Information Systems	14,675	9,540	(5,135)
447 DPIA	1,193,616	1,192,734	(882)
459 Ohio Reads	70,200	46,400	(23,800)
460 Summer Intervention	129,412	101,819	(27,593)
461 Vocational Education Enhancements	23,937	15,592	(8,345)
516 Idea Part B Grants	686,704	596,062	(90,642)
524 Vocational Education Carl Perkins 1984	82,058	57,296	(24,762)
572 Title Disadvantaged Children	1,357,514	1,227,101	(130,413)
573 Innovative Education Program	22,690	14,589	(8,101)
584 Drug Free School Grant	44,429	43,512	(917)
587 IDEA Preschool Handicapped	20,337	20,074	(263)
590 Improving Teacher Quality	363,972	293,739	(70,233)
599 Miscellaneous Grants	299,064	278,290	(20,774)
010 classroom Facilities	149,742	146,638	(3,104)
006 Food Service	1,152,850	1,078,799	(74,051)
020 Special Enterprise Fund	33,253	18,029	(15,224)
200 Student Managed Activity	124,697	78,326	(46,371)

We recommend the School District obtain a reduced certificate of estimated resources when necessary in order to better analyze these variances to determine if appropriations exceed estimated resources.

FINDING NUMBER 2005-017

Ohio Revised Code § 5705.39 states that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

During testing we noted the final appropriations exceeded total certified resources for the General Fund at June 30, 2005 as follows.

Fund	Appropriations	Total Certified Resources	Excess
001 General	24,064,159	23,455,616	608,543

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-017 (Continued)

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

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

FINDING NUMBER 2005-018

Ohio Revised Code §5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless a certificate signed by the fiscal officer is attached. The fiscal officer must certify that the amount required for the order or contract has been lawfully appropriated and is in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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

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

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

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

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-018 (Continued)

The School District did not always encumber funds at the time of the commitment. Our tests results revealed that 33% of the expenditures tested were not properly encumbered. Incurring obligations prior to the fiscal officer's certification could result in the School District spending more than appropriated.

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

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

Auditee Response: The client failed to respond to findings # 2005-016 through 2005-018.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Revised Code § 5705.10, negative fund balances	Yes	No Longer Valid
2004-002	Revised Code § 5705.39, Total appropriations exceeded total estimated revenue.	No	See Finding #2005 -017
2004-003	Revised Code § 5705.41(d), failure to encumber funds	No	See Finding #2005-018
2004-004	Revised Code § 5705.41 (b), expenditures plus encumbrances exceeded appropriations	Yes	No Longer Valid



Mary Taylor, CPA
Auditor of State

EAST LIVERPOOL CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 6, 2007**