



Mary Taylor, CPA  
Auditor of State



**EAST LIVERPOOL CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2007, 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, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

September 22, 2008

**East Liverpool City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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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, 2007. The overall intent of this discussion and analysis is to look at the School District's financial performance as a whole and identify factors and events that may influence the performance in future fiscal years. The reader is encouraged to review the basic financial statements and notes to the financial statements to enhance understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2007 are as follows:

- The School District's total net assets increased from \$46,648,278 to \$49,184,625 or \$2,536,347 during this fiscal year's operations. This represents an increase of 5.44 percent.
- Revenue from governmental activities totaled \$29,250,932 in 2007. This total was comprised of program revenues of \$5,960,109 and general revenues of \$23,290,823. 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 20 percent of all revenues. General revenues accounted for 80 percent of all revenues.
- Program expenses totaled \$26,714,585. Instructional expenses accounted for 65 percent of all expenses while support services accounted for 29 percent of all expenses. Other expenses accounted for the remaining 6 percent of all expenses.
- The School District's outstanding long-term obligations decreased from \$8,859,102 to \$8,211,446 or \$647,656 (7.3 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 16 and 17) provide an overall view of the activities of the School District for 2007. Fund financial statements that begin on page 18 provide the next level of detail. For governmental activities, these statements explain the manner in which services were financed in the short term as well as highlight fund balances that remain for future spending. Fund financial statements also report the School District's operations in greater detail than do the government-wide statements with the presentation of information with respect to the School District's most significant funds. In the case of the East Liverpool City School District, the general fund and classroom facilities capital projects fund are the most significant funds. The remaining statements provide financial information about activities for which the School District acts solely as an agent for the benefit of those outside the governmental entity.

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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 2007?” 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 5. 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 10. Fund financial statements provided detailed information about each significant fund in contrast to the previously described government-wide reporting. Most funds are required to be established by State law. The School District's major governmental funds are the general fund and the classroom facilities capital projects fund.

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



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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 2007 versus fiscal year 2006:

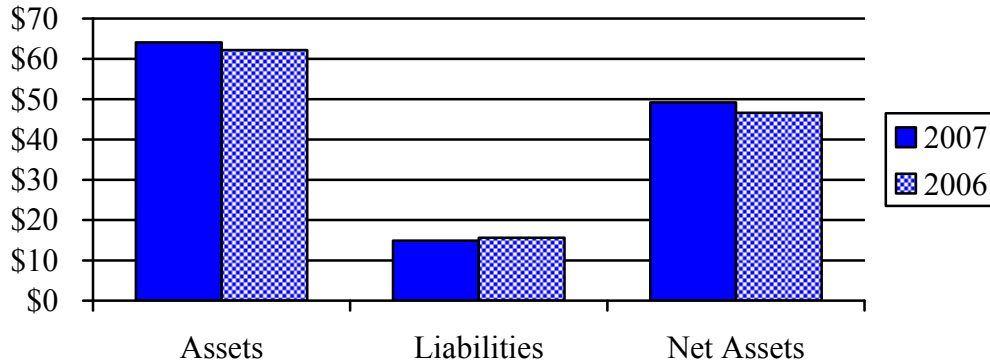
<b>Table 1</b>			
<b>Net Assets</b>			
<b>Governmental Activities</b>			
	2007	2006	Change
<b>Assets</b>			
Current and Other Assets	\$57,373,649	\$56,596,348	\$777,301
Capital Assets, Net	6,724,033	5,663,023	1,061,010
<i>Total Assets</i>	64,097,682	62,259,371	1,838,311
<b>Liabilities</b>			
Current Liabilities	6,701,611	6,751,991	(50,380)
Long-Term Liabilities			
Due in One Year	605,220	625,804	(20,584)
Due in More Than One Year	7,606,226	8,233,298	(627,072)
<i>Total Liabilities</i>	14,913,057	15,611,093	(698,036)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	6,514,598	5,368,179	1,146,419
Restricted for:			
Capital Projects	42,598,330	43,558,626	(960,296)
Debt Service	563,966	548,795	15,171
Set Asides	0	272,007	(272,007)
Other Purpose	371,228	464,469	(93,241)
Unrestricted (Deficit)	(863,497)	(3,563,798)	2,700,301
<i>Total Net Assets</i>	\$49,184,625	\$46,648,278	\$2,536,347

The School District's total net assets increased from the prior fiscal year by \$2,536,347, primarily due to the decrease in the State operating loan payable. This decrease was also the result of a decrease in accrued wages and benefits due to less employees being employed at the School District. These decreases were offset by an increase in cash and capital assets due to the Ohio School Facilities Commission project.

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**Governmental Activities**  
(in millions)



Of the School District's net assets totaling \$49,184,625, those subject to external restrictions as to use total \$42,670,027 composed of resource restricted for capital projects, debt service, and other purposes.

Net Capital Assets represented 10.5 percent of total assets and increased \$1,061,010 from the previous fiscal year largely due to an increase in construction in progress of \$1,632,375 offset by the annual depreciation. Capital Assets, net of related debt to acquire the assets at June 30, 2007, were \$6,514,598. 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 2007 and fiscal year 2006 follows:

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**(Table 2)**  
**Change in Net Assets - Governmental Funds**

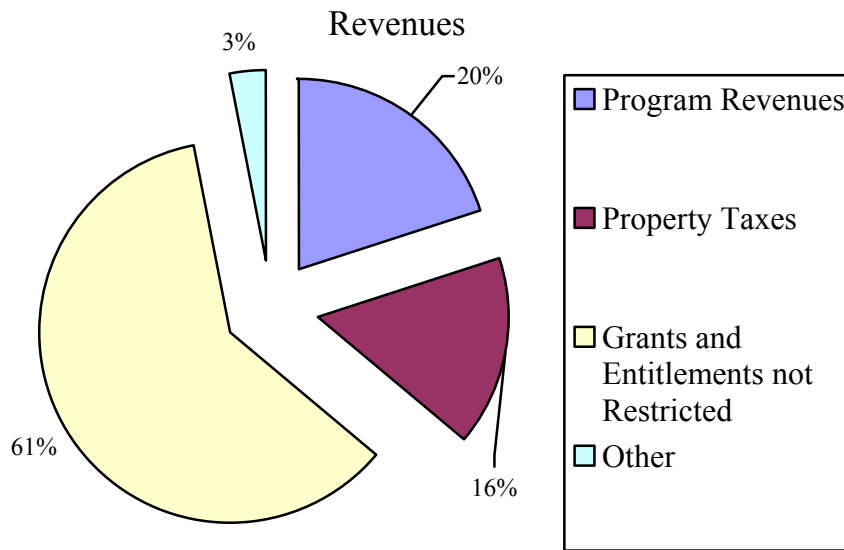
	2007	2006	Change
<b>Revenues</b>			
<i>Program Revenues</i>			
Charges for Services	\$1,046,264	\$1,137,801	(\$91,537)
Operating Grants and Contributions	4,881,361	4,177,314	704,047
Capital Grants	32,484	55,141	(22,657)
<i>Total Program Revenues</i>	<u>5,960,109</u>	<u>5,370,256</u>	<u>589,853</u>
<i>General Revenues</i>			
Property Taxes	4,816,439	4,460,684	355,755
Grants and Entitlements not Restricted to Specific Programs	17,692,701	17,223,683	469,018
Investment Earnings	620,848	446,932	173,916
Miscellaneous	160,835	137,077	23,758
<i>Total General Revenues</i>	<u>23,290,823</u>	<u>22,268,376</u>	<u>1,022,447</u>
<i>Total Revenues</i>	<u>29,250,932</u>	<u>27,638,632</u>	<u>1,612,300</u>
<b>Program Expenses</b>			
<i>Instruction</i>			
Regular	13,842,800	13,412,773	430,027
Special	2,547,184	2,471,777	75,407
Vocational	977,879	1,160,026	(182,147)
Adult /Continuing	9,468	4,652	4,816
<i>Support Services:</i>			
Pupil	992,769	1,188,086	(195,317)
Instructional Staff	1,057,571	1,022,993	34,578
Board of Education	350,555	190,466	160,089
Administration	1,360,034	1,199,160	160,874
Fiscal	476,725	531,551	(54,826)
Business	284,928	56,757	228,171
Operation and Maintenance of Plant	2,127,219	2,175,288	(48,069)
Pupil Transportation	967,475	999,184	(31,709)
Central	18,484	19,298	(814)
Extracurricular Activities	462,748	460,688	2,060
<i>Operation of Non-Instructional Services:</i>			
Food Service Operations	1,010,714	1,063,981	(53,267)
Other Non-Instructional Services	186,751	165,366	21,385
Interest and Fiscal Charges	41,281	64,114	(22,833)
<i>Total Program Expenses</i>	<u>26,714,585</u>	<u>26,186,160</u>	<u>528,425</u>
<i>Increase in Net Assets</i>	2,536,347	1,452,472	1,083,875
<i>Net Assets Beginning of Year</i>	46,648,278	45,195,806	1,452,472
<i>Net Assets End of Year</i>	<u>\$49,184,625</u>	<u>\$46,648,278</u>	<u>\$2,536,347</u>

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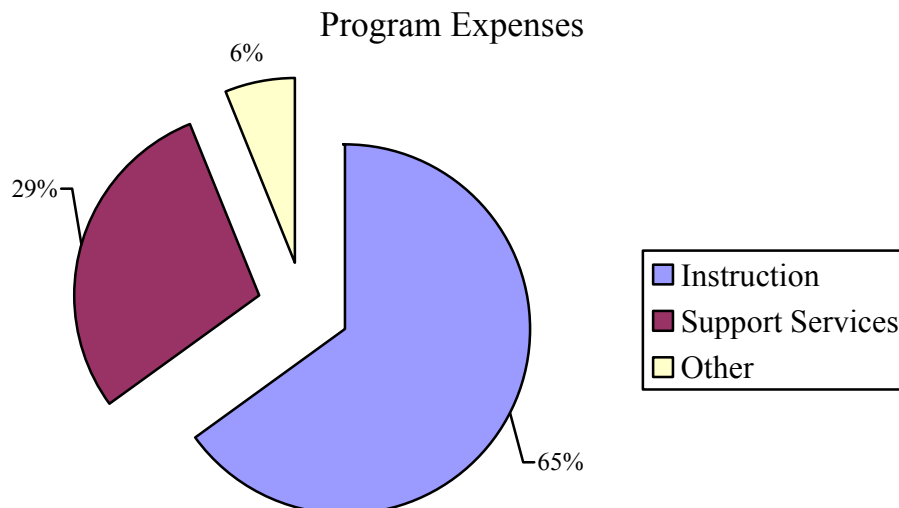
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Table 2 depicts the breakdown of both the School District's revenue sources and the types of services provided. Revenues in excess of the cost of services provided resulted in an increase to net assets of \$2,536,347 in fiscal year 2007. Operating grants and contributions increased \$704,047 due to the School District receiving more grant monies.

As depicted in the chart below, general revenue (property taxes, grants and entitlements, and interest/other) equate to 80 percent of total revenue and program revenue (charges for services, operating grants and capital grants and contributions) equate to 20 percent of total revenue.



Instruction comprises 65 percent of Program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 29 percent. The remaining 6 percent of Program expenses meet other obligations of the School District such as for extracurricular activities; food service operations, other non instructional services and interest and fiscal charges.



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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 2007 and fiscal year 2006 follows:

**(Table 3)**  
**Governmental Activities**

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Instruction				
Regular	\$13,842,800	(\$10,969,372)	\$13,412,773	(\$11,307,875)
Special	2,547,184	(2,292,535)	2,471,777	(2,256,771)
Vocational	977,879	(864,225)	1,160,026	(1,050,085)
Adult/Continuing	9,468	(9,185)	4,652	(4,478)
Support Services:				
Pupil	992,769	(746,488)	1,188,086	(513,997)
Instructional Staff	1,057,571	(324,056)	1,022,993	(524,897)
Board of Education	350,555	(340,107)	190,466	(183,066)
Administration	1,360,034	(1,107,815)	1,199,160	(949,375)
Fiscal	476,725	(440,009)	531,551	(488,575)
Business	284,928	(276,538)	56,757	(54,809)
Operation and Maintenance of Plant	2,127,219	(2,063,499)	2,175,288	(2,086,953)
Pupil Transportation	967,475	(898,878)	999,184	(934,528)
Central	18,484	(18,079)	19,298	(18,635)
Extracurricular Activities	462,748	(298,777)	460,688	(327,651)
Operation of Non-Instructional Services:				
Food Service Operations	1,010,714	(45,185)	1,063,981	(34,007)
Other Non-Instructional Services	186,751	(18,447)	165,366	(16,088)
Interest and Fiscal Charges	41,281	(41,281)	64,114	(64,114)
<i>Total Expenses</i>	<u>\$26,714,585</u>	<u>(\$20,754,476)</u>	<u>\$26,186,160</u>	<u>(\$20,815,904)</u>

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

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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**

Tax Year	Total Valuation	Growth Rate
2006	\$165,424,335	(2.54) %
2005	169,730,762	5.58
2004	168,679,280	3.45
2003	163,052,530	(0.02)
2002	163,081,440	6.16
2001	153,622,820	(0.31)
2000	154,095,740	(1.73)
1999	156,808,190	12.60
1998	139,265,820	2.61
1997	135,718,130	11.97
1996	154,175,380	

The average rate of growth over the last nine years is 2.07 percent. Because of the School District’s low valuation (calendar year 2006 average valuation per pupil was 593 in a ranking of 612 school districts in the State of Ohio), it is highly dependent on State funding in its attempt to achieve financial stability. Property valuations for tax year 2007 are not yet available nor are statistics regarding average valuation per pupil and relative school district ranking.

**The School District’s Funds**

Information about the School District’s major funds starts on page 18. As previously stated, these funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,211,043 and expenditures of \$28,622,326. The net change in overall fund balance for the year was an increase of \$1,793,849 largely accounted for by increases in net fund balances in the general fund of \$1,270,961 and other governmental funds of \$573,894 offset by a decrease in the classroom facilities capital projects fund of \$51,006.

The general fund net fund balance increased by \$1,270,961 due to an increase in intergovernmental and interest revenue and a slight increase in property taxes. These increases were offset by a slight increase in expenditures overall. The classroom facilities fund net fund balance decreased slightly due construction project draw downs in comparison to expenditures.

**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 2007, the School District amended its general fund budget on several occasions. The final budget basis revenue estimate was \$21,563,987 representing an increase of \$326,604 from the original budget estimate of \$21,237,383 largely due to higher original estimates of tax and

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intergovernmental revenues. Actual revenues of \$21,580,427 were within 1.6 percent of original general fund receipt estimates.

The School District revises its budget throughout the year. The final budget basis expenditure estimate was \$22,376,070 representing an increase of \$694,479 from the original budget estimate of \$21,681,591. Actual expenditures were \$21,362,896 within 1.5 percent of original general fund expenditure estimates.

The School District's general fund balance at fiscal year end was of \$1,073,442 inclusive of appropriated encumbrances. There were no state solvency assistance loan or revenue anticipation note balances outstanding at fiscal year end.

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

Mandates of House Bill 412 and Senate Bill 345 require the setting aside of three percent of certain general fund revenues for the purchase of textbook and instructional materials and for facility repair and maintenance. Changes in law effective fiscal 2006 allow school districts in fiscal emergency, such as East Liverpool City School District, to suspend by board resolution making deposits into the textbook and instructional materials and facility repair and maintenance funds. The School District elected to suspend such contributions into the textbooks and instructional materials for fiscal 2007.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2007, the School District had \$6,724,033 invested in land and improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Table 4 shows fiscal year 2007 values compared to fiscal year 2006:

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

	Governmental Activities	
	2007	2006
Land	\$42,269	\$42,269
Construction in Progress	4,625,237	2,992,862
Land Improvements	270,151	309,359
Buildings and Improvements	585,201	809,179
Furniture and Equipment	933,121	1,173,317
Vehicles	268,054	336,037
Totals	\$6,724,033	\$5,663,023

All capital assets, excluding land and construction in progress, are reported net of depreciation. As one can see, the main changes in capital assets during the fiscal year occurred in construction in progress, buildings and improvements and furniture and equipment. Net increases in capital assets were \$1,061,010. Current year depreciation expense was \$750,259 and current year net deletions were \$3,052.

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Construction in progress increased as the School District started the Ohio School Facilities Commission building project. Please refer to Note 10 within the Notes to the Basic Financial Statements for further information on capital assets.

*Debt*

At June 30, 2007, the School District had reduced its outstanding long-term obligation by \$647,656 largely resulting from decreases in the 2003 QZAB school improvement bond; the 1997 energy conservation loan and compensation absences payable offset by an increase in capital leases.

**(Table 5)**  
**Outstanding Long-Term Obligations**

	Governmental Activities	
	2007	2006
School Improvement Bonds	\$6,473,021	\$6,882,014
Energy Conservation Loan	25,940	126,521
Capital Leases	183,495	168,323
Compensated Absences	1,528,990	1,682,244
Totals	\$8,211,446	\$8,859,102

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, 2007, the School District's overall legal debt margin was \$7,670,264 with an unvoted debt margin of \$151,421. 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 16 within the Notes to the Basic Financial Statements for further information on debt.

**School District Outlook**

The goal of the East Liverpool City School District continues to be to maintain the highest standards of service to our students, parents and community. In keeping with its mission statement the Board of Education has adopted a Comprehensive Continuous School Improvement Plan through which the School District intends to satisfy the rigorous requirements of the No Child Left Behind Act of 2001. The School District continues to bring about improvements that have resulted in achieving a Department of Education school district designation of continuous improvement from a late 1990's designation of academic emergency. The goal remains to narrow the gap between the highest and lowest achieving students through greater academic achievement in the latter, leading to total academic success.



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*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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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 2008 through 2012).

Externally, the School District is largely dependent on State funding sources (approximately 75 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 2007). State foundation revenue is fundamentally a function of student enrollment and school district property tax wealth. The School District has seen a trending decline in student enrollment in recent years and, while the revenue growth in State funding has shifted toward school districts with low property tax wealth, local declining enrollment has served to offset any overall meaningful increase in State funding. With the budgetary difficulties being experienced by the State, East Liverpool City School District does not anticipate any meaningful growth in State revenue during the forecast period.

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

The necessity of repaying the solvency assistance loans over a three year time period beginning in 2005 and continuing through 2007 has required the development of multiple deficit reduction plans in order to preserve the foundation of the School District's curricular, co-curricular, and extra-curricular programs while at the same time reduce expenditures in light of declining enrollment. The impact of the plan in place is mirrored by a noticeable decline in the number of teaching, support staff and administrative positions that has continued through the end of the 2007 school year.

**East Liverpool City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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Although the School District had hoped that modest increases in State per-pupil funding contained in the fiscal year 2006 and fiscal year 2007 biennial budget would help buy the School District a little time before it faced the prospect of additional budget reductions, much of the positive impact of the higher per-pupil funding amounts have been offset by other negative financial factors that occurred this past year (decreasing enrollment resulting from open enrollment and on-line schools 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 2008 school year, it remains clear that the School District is at a financial and operational crossroad. Financially, with 71 percent of the School District's budget driven by personnel and benefit costs and outstanding debt and largely required services projected to absorb another 23 percent of the School District's budget, revenue enhancements, spending reductions (affecting staffing levels) or a combination thereof remain needed for the long term financial health of the School District. The School District's recovery plans in the past and projected into the future have largely focused on spending reductions. Success in achieving the plan continues to be based upon a multi-year approach.

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

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

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

In addition, a modest maintenance levy, approved by the voters along with the facilities issue, offers the potential of helping to maintain School District buildings and provide needed technology. The facilities program offers its residents better educational opportunities for its youth and represents a positive development in the community. As of June 30, 2007, the facilities program has progressed to the construction and renovation phase at North Elementary.

**East Liverpool City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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**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](mailto:east_dt@access-k12.org).

## East Liverpool City School District

### Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$14,287,749
Accounts Receivable	5,027
Intergovernmental Receivable	38,281,929
Inventory Held for Resale	23,430
Materials and Supplies Inventory	3,714
Prepaid Items	32,197
Taxes Receivable	4,679,039
Deferred Charges	60,564
Nondepreciable Capital Assets	4,667,506
Depreciable Capital Assets, Net	<u>2,056,527</u>
<i>Total Assets</i>	<u>64,097,682</u>
<b>Liabilities</b>	
Accounts Payable	321,885
Accrued Wages and Benefits	1,597,407
Intergovernmental Payable	573,796
Deferred Revenue	3,939,947
Matured Compensated Absences Payable	128,576
Special Termination Benefits Payable	140,000
Long-Term Liabilities:	
Due Within One Year	605,220
Due In More Than One Year	<u>7,606,226</u>
<i>Total Liabilities</i>	<u>14,913,057</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	6,514,598
Restricted for:	
Capital Projects	42,598,330
Debt Service	563,966
Other Purposes	371,228
Unrestricted (Deficit)	<u>(863,497)</u>
<i>Total Net Assets</i>	<u>\$49,184,625</u>

See accompanying notes to the basic financial statements

**East Liverpool City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$13,842,800	\$331,520	\$2,536,879	\$5,029	(\$10,969,372)
Special	2,547,184	71,626	183,023	0	(2,292,535)
Vocational	977,879	26,731	86,923	0	(864,225)
Adult/Continuing	9,468	283	0	0	(9,185)
Support Services:					
Pupil	992,769	30,492	215,789	0	(746,488)
Instructional Staff	1,057,571	12,889	720,626	0	(324,056)
Board of Education	350,555	10,448	0	0	(340,107)
Administration	1,360,034	68,844	183,375	0	(1,107,815)
Fiscal	476,725	13,137	23,579	0	(440,009)
Business	284,928	8,390	0	0	(276,538)
Operation and Maintenance of Plant	2,127,219	63,045	675	0	(2,063,499)
Pupil Transportation	967,475	28,681	12,461	27,455	(898,878)
Central	18,484	271	134	0	(18,079)
Extracurricular Activities	462,748	155,154	8,817	0	(298,777)
Operation of Non-Instructional Services:					
Food Service Operations	1,010,714	224,642	740,887	0	(45,185)
Other Non-Instructional Services	186,751	111	168,193	0	(18,447)
Interest and Fiscal Charges	41,281	0	0	0	(41,281)
<i>Total Governmental Activities</i>	<u>\$26,714,585</u>	<u>\$1,046,264</u>	<u>\$4,881,361</u>	<u>\$32,484</u>	<u>(20,754,476)</u>
 <b>General Revenues</b>					
Property Taxes Levied for:					
					4,216,666
					73,409
					526,364
					17,692,701
					620,848
					160,835
					<u>23,290,823</u>
					Change in Net Assets 2,536,347
					<u>Net Assets Beginning of Year 46,648,278</u>
					<u>Net Assets End of Year \$49,184,625</u>

See accompanying notes to the basic financial statements

**East Liverpool City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,324,457	\$11,009,076	\$1,866,975	\$14,200,508
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	87,241	0	0	87,241
Accounts Receivable	4,173	0	854	5,027
Intergovernmental Receivable	282,860	37,999,069	0	38,281,929
Prepaid Items	31,802	0	395	32,197
Interfund Receivable	161,494	0	0	161,494
Inventory Held for Resale	0	0	23,430	23,430
Materials and Supplies Inventory	0	0	3,714	3,714
Taxes Receivable	4,133,207	0	545,832	4,679,039
<b>Total Assets</b>	<b>\$6,025,234</b>	<b>\$49,008,145</b>	<b>\$2,441,200</b>	<b>\$57,474,579</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$145,929	\$93,734	\$82,222	\$321,885
Accrued Wages and Benefits	1,300,145	0	297,262	1,597,407
Interfund Payable	0	0	161,494	161,494
Intergovernmental Payable	473,943	325	99,528	573,796
Deferred Revenue	3,881,022	37,999,069	498,095	42,378,186
Matured Compensated Absences Payable	128,576	0	0	128,576
Special Termination Benefits Payable	140,000	0	0	140,000
<b>Total Liabilities</b>	<b>6,069,615</b>	<b>38,093,128</b>	<b>1,138,601</b>	<b>45,301,344</b>
<b>Fund Balances</b>				
Reserved for Encumbrances	266,235	6,983,859	383,656	7,633,750
Reserved for Bus Purchase	39,026	0	0	39,026
Reserved for Textbooks	48,215	0	0	48,215
Reserved for Property Taxes	535,045	0	47,737	582,782
Unreserved:				
Undesignated, (Deficit) Reported in:				
General Fund	(932,902)	0	0	(932,902)
Special Revenue Funds	0	0	298,123	298,123
Debt Service Fund	0	0	515,408	515,408
Capital Projects Funds	0	3,931,158	57,675	3,988,833
<b>Total Fund (Deficit) Balances</b>	<b>(44,381)</b>	<b>10,915,017</b>	<b>1,302,599</b>	<b>12,173,235</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$6,025,234</b>	<b>\$49,008,145</b>	<b>\$2,441,200</b>	<b>\$57,474,579</b>

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, 2007*

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<b>Total Governmental Funds Balances</b>	\$12,173,235
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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.	6,724,033
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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	156,310
School Facilities Monies	37,999,069
Intergovernmental	<u>282,860</u>

Total	38,438,239
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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.	60,564
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Long-term liabilities, including bonds payable, compensated absences and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds:

School Improvement Bonds	(6,473,021)
Energy Conservation Loan	(25,940)
Capital Leases	(183,495)
Compensated Absences	<u>(1,528,990)</u>

Total	<u>(8,211,446)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$49,184,625</u></u>
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See accompanying notes to the basic financial statements

**East Liverpool City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$4,127,397	\$0	\$593,068	\$4,720,465
Intergovernmental	17,302,227	1,275,699	4,978,849	23,556,775
Interest	179,491	397,908	43,449	620,848
Tuition and Fees	689,882	0	0	689,882
Extracurricular Activities	0	0	186,092	186,092
Charges for Services	0	0	224,642	224,642
Rentals	8,894	0	0	8,894
Contributions and Donations	2,850	0	39,760	42,610
Miscellaneous	142,049	0	18,786	160,835
<i>Total Revenues</i>	<u>22,452,790</u>	<u>1,673,607</u>	<u>6,084,646</u>	<u>30,211,043</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,192,299	0	2,213,649	13,405,948
Special	2,387,446	0	158,956	2,546,402
Vocational	931,276	0	97,082	1,028,358
Adult/Continuing	9,468	0	0	9,468
Support Services:				
Pupil	775,964	0	218,404	994,368
Instructional Staff	431,693	0	626,899	1,058,592
Board of Education	349,555	0	1,000	350,555
Administration	1,093,344	0	230,761	1,324,105
Fiscal	437,101	0	36,802	473,903
Business	281,726	0	0	281,726
Operation and Maintenance of Plant	2,112,355	0	5,332	2,117,687
Pupil Transportation	971,126	0	10,428	981,554
Extracurricular Activities	206,735	0	176,833	383,568
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,008,296	1,008,296
Other Non-Instructional Services	3,708	0	187,620	191,328
Capital Outlay	0	1,724,613	7,097	1,731,710
Debt Service:				
Principal Retirement	189,960	0	509,574	699,534
Interest and Fiscal Charges	0	0	35,224	35,224
<i>Total Expenditures</i>	<u>21,373,756</u>	<u>1,724,613</u>	<u>5,523,957</u>	<u>28,622,326</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,079,034</u>	<u>(51,006)</u>	<u>560,689</u>	<u>1,588,717</u>
<b>Other Financing Sources (Uses)</b>				
Inception of Capital Lease	205,132	0	0	205,132
Transfers In	2,498	0	15,703	18,201
Transfers Out	(15,703)	0	(2,498)	(18,201)
<i>Total Other Financing Sources (Uses)</i>	<u>191,927</u>	<u>0</u>	<u>13,205</u>	<u>205,132</u>
<i>Net Change in Fund Balances</i>	1,270,961	(51,006)	573,894	1,793,849
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(1,315,342)</u>	<u>10,966,023</u>	<u>728,705</u>	<u>10,379,386</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$44,381)</u>	<u>\$10,915,017</u>	<u>\$1,302,599</u>	<u>\$12,173,235</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, 2007*

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**Net Change in Fund Balances - Total Governmental Funds** \$1,793,849

*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	1,814,321	
Current Year Depreciation	(750,259)	
Total		1,064,062

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (3,052)

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

Delinquent Property Taxes	95,974	
Tuition and Fees	(63,246)	
School Facilities Monies	(1,275,699)	
Intergovernmental	282,860	
Total		(960,111)

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	100,581	
School Improvement Bonds	408,993	
Capital Leases Payable	189,960	
Total		699,534

Inception of a capital lease is an other financing source in the governmental funds but increases liabilities in governmental activities. (205,132)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 153,254

*Change in Net Assets of Governmental Activities* \$2,536,347

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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$3,361,641	\$3,413,344	\$3,413,344	\$0
Intergovernmental	16,880,144	17,139,763	17,139,763	0
Interest	165,533	168,079	183,992	15,913
Tuition and Fees	678,676	689,114	689,444	330
Rentals	9,693	9,842	9,842	0
Contributions and Donations	5,062	5,140	5,140	0
Miscellaneous	136,634	138,705	138,902	197
<i>Total Revenues</i>	21,237,383	21,563,987	21,580,427	16,440
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,756,483	11,311,387	11,135,428	175,959
Special	2,747,952	2,661,237	2,506,891	154,346
Vocational	1,183,620	1,135,216	958,850	176,366
Adult/Continuing	6,537	10,377	9,471	906
Support Services:				
Pupil	817,371	816,924	762,972	53,952
Instructional Staff	483,841	508,099	444,814	63,285
Board of Education	184,451	386,237	382,018	4,219
Administration	1,143,675	1,157,337	1,082,691	74,646
Fiscal	473,075	476,016	445,269	30,747
Business	88,829	89,480	77,266	12,214
Operation and Maintenance of Plant	2,462,457	2,517,091	2,361,395	155,696
Pupil Transportation	1,113,399	1,086,312	987,420	98,892
Extracurricular Activities	214,711	215,106	204,695	10,411
Operation of Non-Instructional Services	5,190	5,251	3,716	1,535
<i>Total Expenditures</i>	21,681,591	22,376,070	21,362,896	1,013,174
<i>Excess of Revenues Over (Under) Expenditures</i>	(444,208)	(812,083)	217,531	1,029,614
<b>Other Financing Sources (Uses)</b>				
Current Revenue Anticipation Notes Issued	738,640	750,000	750,000	0
Advances In	227,074	230,566	230,566	0
Advances Out	(39,198)	(270,680)	(270,211)	469
Transfers In	2,457	2,498	2,498	0
Transfers Out	(146,608)	(120,326)	(120,326)	0
<i>Total Other Financing Sources (Uses)</i>	782,365	592,058	592,527	469
<i>Net Change in Fund Balance</i>	338,157	(220,025)	810,058	1,030,083
<i>Fund Balance Beginning of Year</i>	(68,581)	(68,581)	(68,581)	0
Prior Year Encumbrances Appropriated	331,965	331,965	331,965	0
<i>Fund Balance End of Year</i>	\$601,541	\$43,359	\$1,073,442	\$1,030,083

See accompanying notes to the basic financial statements

**East Liverpool City School District**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2007*

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	Private Purpose Trust	
	Endowment	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$14,114	<u>\$46,482</u>
<b>Liabilities</b>		
Due to Students	<u>0</u>	<u>\$46,482</u>
<b>Net Assets</b>		
Endowments	8,800	
Held in Trust for Scholarships	<u>5,314</u>	
<i>Total Net Assets</i>	<u>\$14,114</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, 2007*

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	<u>Endowment</u>
<b>Additions</b>	
Interest	\$110
<b>Deductions</b>	
	<u>0</u>
<i>Change in Net Assets</i>	110
<i>Net Assets Beginning of Year</i>	<u>14,004</u>
<i>Net Assets End of Year</i>	<u><u>\$14,114</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, 2007*

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### **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 99 non-certificated employees, 193 certified full-time teaching personnel and 24 administrative employees who provide services to 2,412 students and other community members. The School District currently operates four instructional buildings, one administrative building and one bus garage.

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

On December 18, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under section 3316.03B(5), Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of the Office of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of East Liverpool. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan. The recovery plan was adopted on March 24, 2004. State law requires that the plan be updated annually. The recovery plan includes staff reductions of one administrator, 12 administrative staff, 34 classified and 68 certified positions and reductions to supplies, supplemental contracts and fringe benefits with an estimated total savings of \$4,853,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal year 2007 and beyond.

#### *Reporting Entity*

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

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

## East Liverpool City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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 15 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, 2007*

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

### ***B. Fund Accounting***

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

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

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

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

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

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

### ***C. Measurement Focus***

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

## East Liverpool City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

#### ***D. Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). 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, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.



## **East Liverpool City School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

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

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

#### ***E. Cash and Cash Equivalents***

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

During 2007, investments were limited to federal home loan bank bonds, federal home loan mortgage corporation 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, 2007.

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 2007 amounted to \$179,491, which includes \$118,148 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, 2007, 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, 2007*

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**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.

**I. Deferred Charges**

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

**J. Capital Assets**

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

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

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

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

**K. Interfund Balances**

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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***L. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation when earned for all employees with more than one year of service.

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

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

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

***M. Accrued Liabilities and Long-Term Obligations***

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

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

***N. Internal Activity***

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

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

***O. Fund Balance Reserves***

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

***P. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$43,533,524, none of which is restricted by enabling legislation. Net assets restricted for other purposes include operation of instructional services, food service operations and extracurricular activities.

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

***Q. Extraordinary and Special Items***

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

***R. Estimates***

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

***S. Budgetary Data***

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

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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.

**Note 3 – Accountability and Compliance**

**A. Accountability**

Fund balances at June 30, 2007, included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
General Fund	\$44,381
<i>Special Revenue Funds:</i>	
Food Service	95,009
Vocational Education	12,477
Title I	86,688
Drug Free Schools	2,346
Preschool	321
Reducing Classroom Size	32,517
<i>Capital Projects Fund:</i>	
School Net	7,157

The general fund concluded fiscal year 2007 with a deficit fund balance of \$44,381. The deficit was caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis.

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

**B. Compliance**

The School District had a negative cash balance in the food service special revenue fund in the amount of \$48,948, indicating that revenue from other sources were used to pay the obligations of this fund, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the School District will make cash advances during the year.

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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
<i>Capital Projects Fund:</i>			
Classroom Facilities	\$10,454,116	\$12,489,626	\$2,035,510
<i>Special Revenue Funds:</i>			
Title VIB	1,003,542	1,084,150	80,608

The food service special revenue fund had purchased services expenditures plus encumbrances in excess of appropriations of \$50,830 contrary to section 5705.41, Ohio Revised Code.

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 4 - 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).

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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Net Change in Fund Balance

GAAP Basis	\$1,270,961
Revenue Accruals	(432,118)
Advances In	230,566
Proceeds of Notes	750,000
Property Taxes redirected for Debt Payment	(645,377)
Expenditure Accruals	293,441
Advances Out	(270,211)
Encumbrances	<u>(387,204)</u>
Budget Basis	<u><u>\$810,058</u></u>

**Note 5 - Deposits and Investments**

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

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

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

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

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

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

***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,748,542 of the School District's bank balance of \$2,062,116 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

***Investments***

Investments are reported at fair value. As of June 30, 2007, the School District had the following investments:

	Maturity			Total
	Less Than Six Months	Six to Twelve Months	One to Two Years	
Federal Home Loan Bank Bonds	\$0	\$996,930	\$1,017,654	\$2,014,584
Federal Home Loan Mortgage Corporation Notes	2,519,390	294,942	1,295,871	4,110,203
Federal National Mortgage Association Notes	813,289	752,149	1,784,520	3,349,958
STAROhio	4,477,834	0	0	4,477,834
<b><i>Totals</i></b>	<b><u>\$7,810,513</u></b>	<b><u>\$2,044,021</u></b>	<b><u>\$4,098,045</u></b>	<b><u>\$13,952,579</u></b>



**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer. The following is the School District’s allocation as of June 30, 2007:

Investment	Percentage of Investments
Federal Home Loan Bank Bonds	14 %
Federal Home Loan Mortgage Corporation Notes	30
Federal National Mortgage Association Notes	24
STAROhio	32

**Note 6 - 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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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.

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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, 2007, are available to finance fiscal year 2007 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, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$535,045 in the general fund, \$38,588 in the bond retirement debt service fund and \$9,149 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2006 was \$404,405 in the general fund, \$38,805 in the bond retirement debt service fund and \$7,620 in the classroom facilities maintenance special revenue fund.

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 2007 taxes were collected are:

	2006 Second - Half Collections		2007 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$143,016,460	84.26 %	\$143,574,050	86.79 %
Public Utility	10,312,380	6.08	10,125,950	6.12
Tangible Personal Property	16,401,922	9.66	11,724,335	7.09
Total Assessed Value	<u>\$169,730,762</u>	<u>100.00 %</u>	<u>\$165,424,335</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$37.00		\$36.60	

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

**Note 7 – Interfund Transfers and Balances**

**A. Interfund Transfers**

Transfers To	Transfers From		Total
	General	Public School Support	
General Fund	\$0	\$2,498	\$2,498
<i>Nonmajor Funds:</i>			
Food Service	11,272	0	11,272
Public School Support	2,721	0	2,721
Perkins Grant	1,710	0	1,710
<i>Total Nonmajor Funds</i>	15,703	0	15,703
<b>Total</b>	<b>\$15,703</b>	<b>\$2,498</b>	<b>\$18,201</b>

The general fund transfers were to help provide funding for fiscal year 2007 to these individual funds. The transfer from the public school support special revenue fund to the general fund was to close the fund.

**B. Interfund Balance**

Interfund Payable	Interfund Receivable
	General Fund
<i>Nonmajor Funds:</i>	
Food Service	\$60,439
Extracurricular	55,165
Title VI-B	35,426
Vocational Education	3,265
Reducing Class Size	39
SchoolNet	7,160
<i>Total All Funds</i>	<b>\$161,494</b>

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 8 - Receivables**

Receivables at June 30, 2007, 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 and delinquent property taxes 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, 2007*

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A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Ohio School Facilities Commission	\$37,999,069
CAFS Reimbursement	<u>282,860</u>
Total	<u><u>\$38,281,929</u></u>

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

**Note 9 – Note Debt**

During 2005, the School District received an interest free State solvency assistance loan for \$201,000. The State solvency assistance loan was paid from the general fund with school foundation revenue.

During 2007, the School District issued current revenue anticipation notes in the amount of \$750,000. The total amount was paid before the end of the fiscal year by the general fund which received the proceeds.

	<u>Outstanding 6/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/2007</u>
Fiscal Year 2005				
Solvency Assistance Loan	\$100,500	\$0	\$100,500	\$0
Current Revenue Anticipation Note	<u>0</u>	<u>750,000</u>	<u>750,000</u>	<u>0</u>
Total	<u><u>\$100,500</u></u>	<u><u>\$750,000</u></u>	<u><u>\$850,500</u></u>	<u><u>\$0</u></u>

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/2006	Additions	Deductions	Balance 6/30/2007
<b>Governmental Activities</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$42,269	\$0	\$0	\$42,269
Construction in Progress	2,992,862	1,632,375	0	4,625,237
<i>Total Nondepreciable Capital Assets</i>	<u>3,035,131</u>	<u>1,632,375</u>	<u>0</u>	<u>4,667,506</u>
<i>Capital Assets being Depreciated:</i>				
Land Improvements	1,342,058	0	0	1,342,058
Buildings and Improvements	11,932,176	0	0	11,932,176
Furniture and Equipment	5,497,152	181,946	0	5,679,098
Vehicles	1,499,268	0	(30,522)	1,468,746
<i>Total Capital Assets being Depreciated</i>	<u>20,270,654</u>	<u>181,946</u>	<u>(30,522)</u>	<u>20,422,078</u>
Less Accumulated Depreciation:				
Land Improvements	(1,032,699)	(39,208)	0	(1,071,907)
Buildings and Improvements	(11,122,997)	(223,978)	0	(11,346,975)
Furniture and Equipment	(4,323,835)	(422,142)	0	(4,745,977)
Vehicles	(1,163,231)	(64,931)	27,470	(1,200,692)
<i>Total Accumulated Depreciation</i>	<u>(17,642,762)</u>	<u>(750,259) *</u>	<u>27,470</u>	<u>(18,365,551)</u>
<i>Total Assets being Depreciated, Net</i>	<u>2,627,892</u>	<u>(568,313)</u>	<u>(3,052)</u>	<u>2,056,527</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$5,663,023</u>	<u>\$1,064,062</u>	<u>(\$3,052)</u>	<u>\$6,724,033</u>

\*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$475,757
Special	3,119
Vocational	17,302
Support Services:	
Pupils	16,972
Instructional Staff	5,129
Administration	39,068
Fiscal	429
Business	5,086
Operation and Maintenance of Plant	24,007
Pupil Transportation	59,425
Central	18,484
Operation of Non-Instructional Services:	
Food Service Operations	5,260
Other Non-Instructional Services	1,041
Extracurricular Activities	79,180
Total Depreciation Expense	<u>\$750,259</u>

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Note 11 - 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 2007, 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)	\$81,229,503
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 12 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$273,844, \$275,887 and \$121,686 respectively; 60.17 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

## **East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,397,716, \$1,437,683, and \$1,669,918 respectively; 83.72 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$22 made by the School District and \$14,343 made by the plan members.

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 13 - Postemployment Benefits**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio, (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$107,517 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$136,409.



**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (The latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**Note 14 - Other Employee Benefits**

***A. Compensated Absences***

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

***B. Life Insurance***

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

***C. Health Insurance***

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

***D. Retirement Incentive Bonus***

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

**Note 15 - Jointly Governed Organization**

The Area Cooperative Computer Educational Service System (ACCESS) is a jointly governed organization. The School District is a participant in ACCESS which operates as a not-for-profit computer consortium. ACCESS's primary function is to provide data processing services to its twenty-three member school districts with the major emphasis being placed on accounting, payroll, personnel records and inventory control services. ACCESS is governed by an assembly consisting of the superintendents (or other designees) of the member school districts. The assembly exercises total control over the operation of ACCESS, including budgeting, appropriating, contracting and designating management. All revenue is generated from State funding and charges for services. The School District paid ACCESS \$53,339 for services provided during the fiscal year ending June 30, 2007. 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 16 - General Long-Term Obligations**

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Principal			Principal	Amounts
	Outstanding			Outstanding	Due in
	6/30/06	Additions	Deductions	6/30/07	One Year
<b>Governmental-Type Activities</b>					
2003 QZAB School Improvement Bonds - 0%	\$6,882,014	\$0	\$408,993	\$6,473,021	\$408,993
1997 Energy Conservation Loan - 5%	126,521	0	100,581	25,940	25,940
Capital Leases Payable	168,323	205,132	189,960	183,495	41,711
Compensated Absences	1,682,244	32,068	185,322	1,528,990	128,576
<i>Total General Long - Term Obligations</i>	<u>\$8,859,102</u>	<u>\$237,200</u>	<u>\$884,856</u>	<u>\$8,211,446</u>	<u>\$605,220</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 6<sup>th</sup> 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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

enough interest to allow the QZABs to be paid in full in March 2018. As of June 30, 2007, the proceeds have not 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, auxiliary service, poverty aid, title VI-B, vocational education, title I, drug free schools, preschool grant, reduce class size, and miscellaneous federal grants special revenue funds. The capital lease obligations will be paid from the general fund.

The School District's overall legal debt margin was \$7,670,264 with an unvoted debt margin of \$151,421 at June 30, 2007. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2007, are as follows:

<i>Fiscal Year</i>	2003 School Improvement QZAB Bonds	1997 Energy Conservation Loan	
	Principal	Principal	Interest
2008	\$408,993	\$25,940	\$216
2009	408,993	0	0
2010	408,993	0	0
2011	408,993	0	0
2012-2016	2,044,967	0	0
2017-2018	817,988	0	0
	<u>\$4,498,927</u>	<u>\$25,940</u>	<u>\$216</u>

**Note 17 - 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, 2007.

**B. Litigation**

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

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Note 18 - 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. The original amounts capitalized for the capital lease and the book value as of June 30, 2007 follows:

	<u>Amounts</u>
Asset:	
Equipment	\$205,132
Less: Accumulated Depreciation	<u>(29,305)</u>
Current Book Value	<u><u>\$175,827</u></u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007. The interest rate on the capital lease is 4.48 percent.

<u>Year Ending June 30,</u>	
2008	\$49,694
2009	45,871
2010	45,871
2011	45,871
2012	<u>15,291</u>
Total minimum lease payments	202,598
Less: Amount representing interest	<u>19,103</u>
Present Value of Minimum Lease Payments	<u><u>\$183,495</u></u>

**Note 19 - 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.

**East Liverpool City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-Aside Reserve Balance as of June 30, 2006	\$295,250	\$0
Current Year Set-Aside Requirement	0	424,119
Qualifying Disbursements	<u>(247,035)</u>	<u>(2,021,079)</u>
Total	<u>\$48,215</u>	<u>(\$1,596,960)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$48,215</u>	<u>\$0</u>
Set-Aside Reserve Balance as of June 30, 2007	<u>\$48,215</u>	<u>\$0</u>

The School District, under Ohio Revised Code 3315.17 and 3315.18, elected to suspend contributions into the textbooks and instructional materials for fiscal 2007. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital improvement set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$48,215.

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**EAST LIVERPOOL CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		<b>\$101,913</b>		<b>\$101,913</b>
Nutrition Cluster:						
National School Breakfast Program	2006 05-PU	10.553	20,796		20,796	
	2007 05-PU		106,681		106,681	
Total National School Breakfast Program			<u>127,477</u>		<u>127,477</u>	
National School Lunch Program	2007 LL-P1	10.555	4,117		4,117	
	2006 LL-P4		75,742		75,742	
	2007 LL-P4		393,664		393,664	
Total National School Lunch Program			<u>473,523</u>		<u>473,523</u>	
Subtotal Nutrition Cluster			<b>601,000</b>		<b>601,000</b>	
Child & Adult Care Program	2006 CC-MO	10.558	388		388	
<b>Total U.S. Department of Agriculture</b>			<u><b>601,388</b></u>	<u><b>101,913</b></u>	<u><b>601,388</b></u>	<u><b>101,913</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2006	84.010	160,956		178,377	
	C1-S1 2007		1,000,730		937,591	
Total Title I Grants to Local Educational Agencies			<u>1,161,686</u>		<u>1,115,968</u>	
Title V - Innovation Program Grant	C2-S1 2006	84.298	-656		707	
	C2-S1 2007		5,354		3,038	
Total Title V - Innovation Program Grant			<u>4,698</u>		<u>3,745</u>	
IDEA - Part B Grant	6B-SF 2006	84.027	49,357		91,215	
	6B-SF 2007		884,776		692,602	
Total Title II-D Grant			<u>934,133</u>		<u>783,817</u>	
Drug Free School Grant	DR-S1 2006	84.186	-37		4,420	
	DR-S1 2007		22,828		22,444	
Total Drug Free School Grant			<u>22,791</u>		<u>26,864</u>	
Title II-A Grant	TR-S1-2006	84.367	54,130		35,795	
	TR-S1-2007		269,325		264,140	
Total Title II-A Grant			<u>323,455</u>		<u>299,935</u>	
Early Childhood Special Education	PG-S1 2006	84.173	2,116		3,300	
	PG-S1 2007		25,149		22,310	
Total Early Childhood Special Education			<u>27,265</u>		<u>25,610</u>	
Title II-D Grant	TJ-S1 2006	84.318	2,085		7,000	
	TJ-S1 2007		16,281		6,822	
Total Title II-D Grant			<u>18,366</u>		<u>13,822</u>	
Vocational Education - Carl D. Perkins Act of 1984	20-C1 2006	84.048	9,717		14,601	
	20-C1 2007		77,206		76,505	
Total Vocational Education - Carl D. Perkins Act of 1984			<u>86,923</u>		<u>91,106</u>	

**EAST LIVERPOOL CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2007  
(continued)**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Comprehensive School Reform Demonstration	RF-CC 2006	84.332	-647		647	
	RF-S3 2004		-859		0	
Total Comprehensive School Reform Demonstration			<u>-1,506</u>		<u>647</u>	
Title VI-B Rural and Low Income	RU-S1 2006	84.358	-2,763		3,014	
	RU-S1 2007		46,653		37,044	
Total Title VI-B Rural and Low Income			<u>43,890</u>		<u>40,058</u>	
School Maintenance and Operation Assistance (Impact Aid / SAFA)		84.041	4,447		1,911	
<b>Total Department of Education</b>			<u>2,626,148</u>		<u>2,403,483</u>	
<b>Total Federal Receipts and Expenditures</b>			<u>\$3,227,536</u>	<u>\$101,913</u>	<u>\$3,004,871</u>	<u>\$101,913</u>

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



**EAST LIVERPOOL CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2007**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

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# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Liverpool City School District, Columbiana County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 22, 2008. We noted the District is experiencing certain financial difficulties and has been declared in fiscal emergency pursuant to Ohio Revised Code Section 3316.03 B(5). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the District's management in a separate letter dated September 22, 2008.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503-1293  
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated September 22, 2008.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

September 22, 2008



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of East Liverpool City School District, Columbiana County, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of each 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 each of its major federal programs for the year ended June 30, 2007.

In a separate letter to the District's management dated September 22, 2008, we reported an other matter 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 the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated September 22, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

September 22, 2008

**EAST LIVERPOOL CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Title I (CFDA #84.010) IDEA Part B (CFDA #84.027)
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**EAST LIVERPOOL CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2006-001	The District received federal reimbursement dollars totaling \$32,562.48 for employee salaries charged to Title I. These reimbursement requests were not approved or outlined in the grant agreement.	No	Repeated in the management letter for 2007.





**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  
DECEMBER 9, 2008**