



**Auditor of State
Betty Montgomery**

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	15
Statement of Activities.....	16
Balance Sheet-Governmental Funds	17
Reconciliation of the Total Governmental Fund Balances to Net Assets of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	21
Statement of Fiduciary Net Assets – Fiduciary Fund.....	22
Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Fund	23
Notes to the Basic Financial Statements	25
Schedule of Federal Award Expenditures.....	54
Notes to the Schedule of Federal Award Expenditures	55
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	56
Independent Accountants' Report on Compliance with Requirements Applicable to Its Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	58
Schedule of Findings	60
Schedule of Prior Audit Findings.....	64

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

East Liverpool City School District
Columbiana County
500 Maryland Avenue
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 the East Liverpool City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Liverpool City School District, Columbiana County, Ohio, as of June 30, 2003 and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

As described in Note 22 to the financial statements, the District has been declared to be in fiscal emergency under the criteria established by Ohio Revised Code § 3316.03 B(5).

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

December 17, 2004

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

It is a privilege to present to you the financial picture of East Liverpool City School District. The discussion and analysis of East Liverpool City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ◆ In total, net assets of governmental activities increased \$50,275,316.
- ◆ General revenues accounted for \$72,644,795 or 92.9 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,581,119 or 7.1 percent of total revenues of \$78,225,914.
- ◆ The School District had \$27,950,598 in expenses related to governmental activities; only \$5,581,119 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and school foundation) of \$72,644,795 were adequate to provide for these programs.
- ◆ The School District's major governmental funds are the general fund and the classroom facilities capital projects fund.
- ◆ Program expenses totaled \$27,950,598. Instructional expenses made up \$16,810,730 or 60.1 percent of this total while support services accounted for \$9,243,115 or 33.1 percent. Other expenses, \$1,896,753 rounded out the remaining 6.8 percent.

Using the General Purpose External Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand East Liverpool City School District as a financial whole, an entire operating entity.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of East Liverpool City School District, the general fund and the classroom facilities capital projects funds are by far the most significant funds.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

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, "Are we in a better financial position this year than last?" and "Why?" or "Why not?". The *Statement of Net Assets* and the *Statement of Activities* answers these questions. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of non-instructional activities, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 17. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include general and classroom facilities capital projects.

Governmental Funds

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

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Fiduciary Funds

The School District is the trustee, or fiduciary, for various scholarship programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations and/or other governmental units. These activities are reported as agency funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

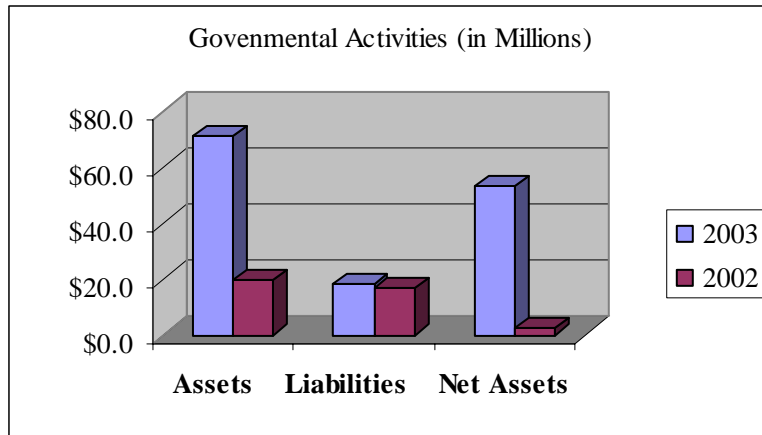
You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets for 2003 compared to 2002:

Table I
 Net Assets
 Governmental Activities

	2003	2002
Assets		
Current and Other Assets	\$67,153,400	\$15,311,327
Capital Assets, Net	4,082,950	4,584,126
<i>Total Assets</i>	<i>71,236,350</i>	<i>19,895,453</i>
Liabilities		
Current Liabilities	7,500,335	14,918,214
Long-term Liabilities		
Due within One Year	426,722	153,902
Due Within More Than One Year	10,080,219	1,869,579
<i>Total Liabilities</i>	<i>18,007,276</i>	<i>16,941,695</i>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,696,189	3,976,271
Restricted For:		
Capital Projects	52,367,863	284,353
Debt Service	192,361	0
Set Asides	0	467,533
Other Purposes	838,647	923,718
Unrestricted (Deficit)	(3,865,986)	(2,698,117)
<i>Total Net Assets</i>	<i>\$53,229,074</i>	<i>\$2,953,758</i>

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the School District's assets exceeded liabilities by \$53,229,074. By comparing assets and liabilities, one can see the overall position of the School District as evidenced by the increase in net assets of \$50,275,316.



A portion of the School District's net assets, \$1,031,008, represent resources that are subject to external restrictions on how they may be used. Additionally, \$52,367,863 represents resources restricted for capital projects. There remains a negative balance of unrestricted net assets of \$3,865,986, which is insufficient to provide for the School District's ongoing obligations to the students and creditors.

At year-end, capital assets represented 5.7 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, construction in progress, equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, were \$3,696,189. These capital assets are used to provide services to the 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 capital assets may not be used to liquidate these liabilities.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
 Governmental Activities

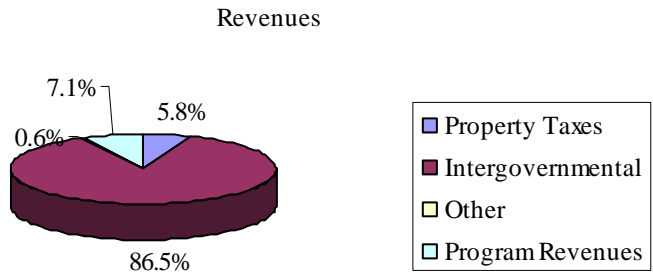
	2003
Program Revenues	
Charges for Services	\$796,626
Operating Grants, Interest and Contributions	4,784,493
<i>Total Program Revenues</i>	5,581,119
General Revenues	
Taxes	4,515,913
Intergovernmental	67,814,174
Interest	194,918
Miscellaneous	119,790
<i>Total General Revenues</i>	72,644,795
<i>Total Revenues</i>	78,225,914
Program Expenses	
Instruction:	
Regular	11,087,789
Special	4,298,027
Vocational	1,353,421
Adult/Continuing	71,493
Support Services:	
Pupil	1,473,144
Instructional Staff	1,166,381
Board of Education	141,165
Administration	2,153,584
Fiscal	588,001
Business	123,727
Operation and Maintenance of Plant	2,649,077
Pupil Transportation	944,152
Central	3,884
Operation of Non-Instructional Services:	
Operation of Food Service	1,032,178
Other Non-Instructional Services	123,012
Extracurricular Activities	532,609
Interest and Fiscal Charges	208,954
<i>Total Program Expenses</i>	27,950,598
<i>Increase in Net Assets</i>	50,275,316
Net Assets Beginning of Year	2,953,758
Net Assets End of Year	\$53,229,074

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

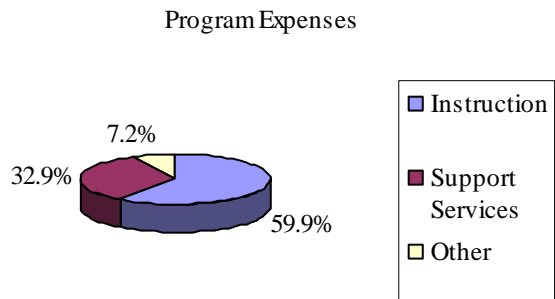
Governmental Activities

Net assets of the School District's governmental activities increased by \$50,275,316 in fiscal year 2003. Program revenues of \$5,581,119 and general revenue of \$72,644,795 offset total governmental expenses of \$27,950,598. Program revenues supported 19.9 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. As depicted in the chart below, these two revenue sources represent 92.3 percent of the total governmental revenue. Property taxes, alone, represent 5.8 percent of revenues. Interest income and miscellaneous revenue account for .6 percent of total revenue. The remaining amount of revenue received was in the form of program revenues, which equated to 7.1 percent of total revenue.



Instruction comprises 59.9 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 32.9 percent. The remaining 7.2 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2002 have not been presented since they are not available.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 3
 Governmental Activities

	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
Instruction:		
Regular	\$11,087,789	\$9,825,773
Special	4,298,027	2,553,998
Vocational	1,353,421	1,108,742
Adult/Continuing	71,493	25,174
Support Services:		
Pupil	1,473,144	1,372,286
Instructional Staff	1,166,381	677,207
Board of Education	141,165	141,062
Administration	2,153,584	1,774,902
Fiscal	588,001	574,915
Business	123,727	123,727
Operation and Maintenance of Plant	2,649,077	2,649,077
Pupil Transportation	944,152	940,130
Central	3,884	0
Operation of Non-Instructional Services:		
Operation of Food Service	1,032,178	119,515
Other Non-Instructional Services	123,012	(52,635)
Extracurricular Activities	532,609	326,652
Interest and Fiscal Charges	<u>208,954</u>	<u>208,954</u>
 <i>Total Program Expenses</i>	 <u><u>\$27,950,598</u></u>	 <u><u>\$22,369,479</u></u>

The dependence upon tax and other general revenues 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 1998 and the last triennial update in 2001. As a result of the latest update by Columbiana County in 2001, the School District's tax valuation decreased by 1.7 percent that year. The next comprehensive re-appraisal of property values will occur in the year 2004. Slow economic growth in the area have 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, in fact, are the major reason that the School District has not sought additional operating millage since the passage of and two subsequent renewals of the last emergency operating levy of 8.5 mills in 1994.

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," the tax rate applied to real property. The following table illustrates the low rate of growth in property values which has negatively impacted on the School District:

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Property Tax Growth - Last Eight Years

Calendar Year	Total Valuation	Growth Rate
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 eight years is less than 1.0 percent. Because of the School District's low valuation (twenty-first lowest wealth district in the State of Ohio), it is highly dependent on State funding to maintain financial stability.

The School District's Funds

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$27,042,235 and expenditures of \$27,425,568.

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 2003, the School District amended its general fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities in the buildings. For the general fund, the final budget basis revenue was \$20,140,746 representing a \$297,100 increase from the original budget estimate of \$19,843,646. Most of this difference is due to an increase in State foundation aid. The original budget estimate was amended with the June 2003 amended certificate of resources. The School District's general fund unencumbered cash balance at the end of the fiscal year was (\$292,140) reflecting a significant budget shortfall.

Total actual expenditures for all funds on the budget basis (cash outlays plus encumbrances) were \$28,858,613. The School District's total unencumbered ending cash balance for all funds was \$9,824,662, which was above the original budgeted ending balance amount.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the School District had \$4,082,950 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2003 values compared to 2002.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2003	2002
Land	\$398,820	\$398,820
Land Improvements	308,440	332,179
Buildings and Improvements	1,263,493	1,479,345
Furniture and Fixtures	1,672,870	1,855,620
Vehicles	439,327	518,162
Total Capital Assets	\$4,082,950	\$4,584,126

All capital assets, except land, are reported net of depreciation. As one can see, the main changes in capital assets during the fiscal year occurred in building and improvements and furniture and fixtures. The School District acquired \$224,045 in new furniture and equipment during fiscal 2003. The overall decrease in capital assets of \$501,176 is primarily due to the recording \$725,221 more in depreciation expense for fiscal 2003.

For fiscal year 2003, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal years 2002 and 2003, the School District had qualifying disbursements or offsets exceeding the capital and maintenance requirement. See Note 8 to the basic financial statements for additional information on capital assets.

Debt

At June 30, 2003, the School District had an energy conservation loan of \$399,833 outstanding with \$86,598 due within one year. At June 30, 2002, the School District had \$482,114 in energy conservation bonds outstanding with \$82,281 due within one year.

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 will pay the mandatory sinking fund requirements on the bonds into an account in the School District's bond retirement debt service fund, to provide for payment of principal of the bonds at maturity. The date and amount of the first payment is schedule for March 11, 2004 at \$200,000. Thereafter, payments are made annually for fourteen additional years in the amount of \$408,993, until maturity at March 11, 2018. The bonds are backed by the full faith and credit of the School District.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

At June 30, 2003, the School District's overall legal debt margin was \$14,539,788 with unvoted debt margin of \$163,053. For additional information on long-term obligations see Note 16 to the basic financial statements.

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. Through implementation of such processes as Classwell Learning Systems (educational piece) and Capturing Kid's Hearts (character development program), the School District has begun to bring about improvements that will result in achieving school improvement status as defined by the Ohio Department of Education. The goal is ultimately to narrow the gap between the highest and lowest achieving students leading to total academic success.

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

The School District is always presented with challenges and opportunities. Recent national events have impacted the School District negatively resulting in a heightened local recession that has caused several of the remaining steel mills and potteries in the area to reduce their area operations significantly or simply close shop. Economic decline has impacted our primary industries for three decades. Additionally, there is little growth of new or additional industry in the 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 rely heavily on local property taxes to fund its operations. Due to slow economic growth, the School District does not foresee any sustainable growth in revenue from property taxes. Thus management must diligently plan expenses from the modest growth attained, staying carefully within its five-year forecast. Additional revenues than what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the School District is largely dependent on State funding sources (nearly 60 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. The School District has seen a noticeable decline in student enrollment in recent years; and while state revenue growth has shifted toward school districts with low property tax wealth, declining enrollment has served to offset any overall increase in state funding. Thus, East Liverpool City School District does not anticipate any meaningful growth in State revenue.

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District is once again faced with a looming budget deficit; despite the fact the District has begun the process of instituting its second budget reduction plan in less than four years. These latest reductions will impact operations in fiscal year 2004 and beyond. The initial phase of the plan, which was in response to a notice from the Ohio Department of Education requiring the School District to develop a plan to erase a fiscal year 2004 projected deficit of \$3.1 million, attempted to preserve the foundation of the District's curricular, co-curricular, and extra-curricular programs - - while at the same time, make necessary reductions to reduce expenditures and address current declining enrollment issues. There are, however, other reductions in the plan that are designed to save money in an effort to make possible the solvency of the District. 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 .

Although the School District had hoped the higher per-pupil funding amounts included in State's latest biennial budget would help buy the 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, lower interest earnings, higher insurance costs, and state budget cuts in education). In the long run, the fact is that as long as the State avoids the complete systematic overhaul the Supreme Court ordered in its initial ruling, all schools in Ohio will be faced with the same problem in the future -- either increasing its revenues (passing levies) or decreasing its expenditures (making budget cuts).

It is clear that the School District is at a crossroads. Currently, the School District operates six educational facilities (three elementary buildings, one joint elementary and middle school, and one high school, as well as one educational administration building). Given the fact the School District's enrollment has dropped so significantly the past 20 years, reducing the number of buildings is an option the School District must consider that would produce operational savings. However, the closing of any school facility is never easy and often alienates a segment of the community.

The upshot is the School District has begun the initial phase of facilities renovations, additions, and improvements to existing buildings in the School District with combined funds from a bond issuance approved by the voters in 2002 and funding from the Ohio School Facilities Commission. On March 2, 2003, the School District and the Ohio School Facilities Commission entered into an agreement in which the State will provide \$51,982,022 or 87.0 percent and the School District will provide \$7,769,000 or 13.0 percent of the funding for renovations and additions. On November 1, 2000, the State Controlling Board approved the School District's participation in the Expedited Local Partnership Program (the "Expedited Program") under which the State will fund 52 percent of the School District's future facility needs after its issuance of the bonds.

Under the Expedited Program, a school district may enter into an agreement with the Ohio School Facilities Commission under which the school district proceeds with the new construction or major repairs of a separate and discrete portion of the school district's classroom facilities needs through the expenditure of "local resources." "Local resources" are defined as "any moneys generated in any manner" permitted for a school district portion of a school facilities project. In order to be eligible for the Expedited Program, a school district must submit a resolution passed by the school board certifying to the Commission the school district's request to participate in the Expedited Program.

Once the school district is approved for the Expedited Program, the Commission conducts an assessment and develops a current master plan for the school district. As with the Classroom Facilities Assistance Program, the Commission establishes a basic project cost, and subsequently, the state and local share

East Liverpool City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

percentage are determined pursuant to Chapter 3318, Ohio Revised Code. The master plan expenditures, if qualifying under the Ohio School Design Manual, will then count toward the local share of the Classroom Facilities Assistance Program when the school district becomes eligible. At that time, the Commission will conduct a new assessment of the school district's facilities and may determine that additional facility improvements are required. In some cases, this would require the school district to provide additional local resources to meet its local share percentage, possibly including seeking voter approval for an additional bond issue.

While this funding (\$59,751,022) will not directly support operations, savings can be achieved when the total capacity of the existing buildings is expanded and if one facility is closed as a result of that expansion. In addition, the small permanent improvement tax issue that was passed along with the facilities issue can help maintain district buildings and update technology. This solution offers the community a chance to provide better facilities and better educational opportunities for the youth of this School District and is forward-looking as opposed to just another negative step in an effort to achieve savings.

Since approximately 90 percent of the School District's budget is driven by personnel costs, spending cuts cannot be made without ultimately affecting staffing levels. Based on the School District's recovery plan it is projected that the School District can be out of financial trouble within four years and then restore programming within six or seven years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact: The Treasurer at East Liverpool City School District, 500 Maryland Avenue, East Liverpool, Ohio 43920.

East Liverpool City School District

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,486,670
Accounts Receivable	1,995
Accrued Interest Receivable	3,644
Intergovernmental Receivable	51,178,220
Prepaid Items	36,222
Inventory Held for Resale	52,274
Materials and Supplies Inventory	6,398
Deferred Charges	84,792
Taxes Receivable	5,303,185
Nondepreciable Capital Assets	398,820
Depreciable Capital Assets, Net	<u>3,684,130</u>
<i>Total Assets</i>	<u>71,236,350</u>
Liabilities	
Accounts Payable	40,762
Accrued Wages and Benefits	2,143,943
Intergovernmental Payable	828,782
Deferred Revenue	4,486,848
Long-Term Liabilities:	
Due Within One Year	426,722
Due In More Than One Year	<u>10,080,219</u>
<i>Total Liabilities</i>	<u>18,007,276</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,696,189
Restricted for:	
Capital Projects	52,367,863
Debt Service	192,361
Food Service	114,490
Public School Support	101,837
Classroom Facilities Maintenance	51,350
Extracurricular Activities	36,928
Auxiliary Services	100,737
Ohio Reads	37,415
Summer Intervention	20,070
State Grants	75,492
Title I	106,865
Federal Grants	193,463
Unrestricted (Deficit)	<u>(3,865,986)</u>
<i>Total Net Assets</i>	<u>\$53,229,074</u>
See accompanying notes to the basic financial statements	

East Liverpool City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Change in Net Assets
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$11,087,789	\$183,053	\$1,078,963	(\$9,825,773)
Special	4,298,027	71,545	1,672,484	(2,553,998)
Vocational	1,353,421	1,946	242,733	(1,108,742)
Adult/Continuing	71,493	2,808	43,511	(25,174)
Support Services:				
Pupils	1,473,144	505	100,353	(1,372,286)
Instructional Staff	1,166,381	0	489,174	(677,207)
Board of Education	141,165	0	103	(141,062)
Administration	2,153,584	23,851	354,831	(1,774,902)
Fiscal	588,001	0	13,086	(574,915)
Business	123,727	0	0	(123,727)
Operation and Maintenance of Plant	2,649,077	0	0	(2,649,077)
Pupil Transportation	944,152	0	4,022	(940,130)
Central	3,884	1,034	2,850	0
Operation of Non-Instructional Services:				
Food Service Operations	1,032,178	305,927	606,736	(119,515)
Other Non-Instructional Services	123,012	0	175,647	52,635
Extracurricular Activities	532,609	205,957	0	(326,652)
Interest and Fiscal Charges	208,954	0	0	(208,954)
Total Governmental Activities	\$27,950,598	\$796,626	\$4,784,493	(\$22,369,479)
General Revenues				
Property Taxes Levied for:				
				3,963,011
				47,647
				304,940
				200,315
				15,832,152
				51,982,022
				194,918
				119,790
				72,644,795
				50,275,316
				2,953,758
				\$53,229,074

See accompanying notes to the basic financial statements

East Liverpool City School District
Balance Sheet
Governmental Funds
June 30, 2003

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$0	\$8,718,561	\$1,768,109	\$10,486,670
Taxes Receivable	4,500,709	0	802,476	5,303,185
Accounts Receivable	830	0	1,165	1,995
Accrued Interest Receivable	3,644	0	0	3,644
Intergovernmental Receivable	0	51,007,054	171,166	51,178,220
Interfund Receivable	57,203	51,775	0	108,978
Prepaid Items	36,222	0	0	36,222
Inventory Held for Resale	0	0	52,274	52,274
Materials and Supplies Inventory	0	0	6,398	6,398
<i>Total Assets</i>	<u>\$4,598,608</u>	<u>\$59,777,390</u>	<u>\$2,801,588</u>	<u>\$67,177,586</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$19,721	\$225	\$20,816	\$40,762
Accrued Wages and Benefits	1,710,005	0	433,938	2,143,943
Interfund Payable	21,679	0	87,299	108,978
Intergovernmental Payable	501,319	0	86,484	587,803
Deferred Revenue	4,345,366	51,007,054	916,841	56,269,261
<i>Total Liabilities</i>	<u>6,598,090</u>	<u>51,007,279</u>	<u>1,545,378</u>	<u>59,150,747</u>
Fund Balances				
Reserved for Encumbrances	246,523	24,995	306,587	578,105
Reserved for Property Taxes	155,343	0	28,131	183,474
Unreserved:				
Undesignated, (Deficit) Reported in:				
General Fund	(2,401,348)	0	0	(2,401,348)
Special Revenue Funds	0	0	377,175	377,175
Debt Service Fund	0	0	253,713	253,713
Capital Projects Funds	0	8,745,116	290,604	9,035,720
<i>Total Fund (Deficit) Balances</i>	<u>(1,999,482)</u>	<u>8,770,111</u>	<u>1,256,210</u>	<u>8,026,839</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,598,608</u>	<u>\$59,777,390</u>	<u>\$2,801,588</u>	<u>\$67,177,586</u>
See accompanying notes to the basic financial statements				

East Liverpool City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

Total Governmental Funds Balances	\$8,026,839
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	4,082,950
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Property Taxes	632,863
Intergovernmental	<u>51,149,550</u>
Total	51,782,413
Long-term liabilities, including compensated absences payable and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(7,900,000)
Energy Conservation Loan	(399,833)
Capital Leases	(71,720)
Compensated Absences	<u>(2,135,388)</u>
Total	(10,506,941)
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on a full accrual basis.	
Issuance Costs	90,849
Amount Expensed	<u>(6,057)</u>
Total	84,792
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	<u>(240,979)</u>
<i>Net Assets of Governmental Activities</i>	<u>\$53,229,074</u>
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, 2003

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$3,716,141	\$0	\$473,114	\$4,189,255
Intergovernmental	15,770,499	974,968	4,996,154	21,741,621
Interest	29,304	162,789	2,825	194,918
Tuition and Fees	247,068	0	2,808	249,876
Extracurricular Activities	0	0	240,788	240,788
Charges for Services	0	0	305,927	305,927
Contributions and Donations	25	0	0	25
Rentals	35	0	0	35
Miscellaneous	33,767	0	86,023	119,790
<i>Total Revenues</i>	<u>19,796,839</u>	<u>1,137,757</u>	<u>6,107,639</u>	<u>27,042,235</u>
Expenditures				
Current:				
Instruction:				
Regular	9,715,404	0	974,347	10,689,751
Special	2,652,975	0	1,489,117	4,142,092
Vocational	1,082,466	0	242,453	1,324,919
Adult/Continuing	36,290	0	36,164	72,454
Support Services:				
Pupils	871,345	0	497,874	1,369,219
Instructional Staff	676,794	0	504,353	1,181,147
Board of Education	141,879	0	103	141,982
Administration	1,674,783	0	417,615	2,092,398
Fiscal	582,301	0	9,415	591,716
Business	123,253	0	0	123,253
Operation and Maintenance of Plant	2,359,642	0	164,194	2,523,836
Pupil Transportation	860,795	0	11,952	872,747
Central	0	0	3,884	3,884
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,105,062	1,105,062
Other Non-Instructional Services	2,417	0	63,996	66,413
Extracurricular Activities	242,585	0	232,771	475,356
Capital Outlay	0	0	219,291	219,291
Debt Service:				
Principal	54,021	0	82,281	136,302
Interest and Fiscal Charges	53,979	69,539	79,379	202,897
Issuance Costs	0	90,849	0	90,849
<i>Total Expenditures</i>	<u>21,130,929</u>	<u>160,388</u>	<u>6,134,251</u>	<u>27,425,568</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,334,090)</u>	<u>977,369</u>	<u>(26,612)</u>	<u>(383,333)</u>
Other Financing Sources (Uses)				
General Obligation Bonds Issued	0	7,806,651	93,349	7,900,000
Transfers In	0	0	104,623	104,623
Transfers Out	(104,623)	0	0	(104,623)
<i>Total Other Financing Sources (Uses)</i>	<u>(104,623)</u>	<u>7,806,651</u>	<u>197,972</u>	<u>7,900,000</u>
<i>Net Change in Fund Balances</i>	<u>(1,438,713)</u>	<u>8,784,020</u>	<u>171,360</u>	<u>7,516,667</u>
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>				
	<u>(560,769)</u>	<u>(13,909)</u>	<u>1,084,850</u>	<u>510,172</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,999,482)</u>	<u>\$8,770,111</u>	<u>\$1,256,210</u>	<u>\$8,026,839</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 the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds	\$7,516,667
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*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 depreciation exceeded capital outlay in the current period.

Capital Asset Additions	224,045	
Current Year Depreciation	<u>(725,221)</u>	
Total		(501,176)

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

Delinquent Property Taxes	326,658	
Grants and Contributions	<u>50,857,021</u>	
Total		51,183,679

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Pension Obligation	(96,857)	
Compensated Absences	<u>(148,091)</u>	
Total		(244,948)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

	136,302
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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.

Issuance Costs	90,849	
Current Year Expense	<u>(6,057)</u>	
Total		84,792

Receipt of bond proceeds is a revenue in the governmental funds, but the issuance of bonds increases long-term liabilities in the statement of net assets.

	<u>(7,900,000)</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$50,275,316</u></u>
See accompanying notes to the basic financial statements	

East Liverpool City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$4,059,304	\$4,059,304	\$4,057,781	(\$1,523)
Intergovernmental	15,138,731	15,467,644	15,780,222	312,578
Interest	93,073	93,073	34,737	(58,336)
Tuition and Fees	438,229	438,229	246,238	(191,991)
Rentals	3,569	3,569	1,236	(2,333)
Contributions and Donations	5,000	5,000	25	(4,975)
Miscellaneous	105,740	73,927	33,542	(40,385)
<i>Total Revenues</i>	19,843,646	20,140,746	20,153,781	13,035
Expenditures				
Current:				
Instruction:				
Regular	10,037,401	9,742,704	9,613,761	128,943
Special	2,548,779	2,632,422	2,631,871	551
Vocational	1,096,213	1,159,222	1,077,756	81,466
Adult/Continuing	93,201	93,201	50,697	42,504
Support Services:				
Pupils	882,941	859,431	859,431	0
Instructional Staff	683,298	692,531	692,531	0
Board of Education	171,591	154,696	130,437	24,259
Administration	1,787,661	1,728,526	1,698,979	29,547
Fiscal	588,930	615,277	614,586	691
Business	124,459	123,819	123,166	653
Operation and Maintenance of Plant	2,526,702	2,506,788	2,397,940	108,848
Pupil Transportation	1,018,540	1,028,629	1,021,367	7,262
Operation of Non-Instructional Services	2,417	2,417	2,417	0
Extracurricular Activities	246,683	245,980	245,930	50
Debt Service:				
Principal Retirement	54,021	54,021	54,021	0
Interest and Fiscal Charges	53,979	53,979	53,979	0
<i>Total Expenditures</i>	21,916,816	21,693,643	21,268,869	424,774
<i>Excess of Revenues Under Expenditures</i>	(2,073,170)	(1,552,897)	(1,115,088)	(437,774)
Other Financing Sources (Uses)				
Advances In	236,727	195,538	182,893	(12,645)
Advances Out	(75,000)	(75,000)	0	75,000
Transfers In	656,618	456,439	0	(456,439)
Transfers Out	(104,623)	(304,623)	(104,623)	200,000
<i>Total Other Financing Sources (Uses)</i>	713,722	272,354	78,270	(194,084)
<i>Net Change in Fund Balance</i>	(1,359,448)	(1,280,543)	(1,036,818)	243,725
<i>Fund Balance Beginning of Year</i>	613,178	613,178	613,178	0
Prior Year Encumbrances Appropriated	131,500	131,500	131,500	0
<i>Fund Balance (Deficit) End of Year</i>	(\$614,770)	(\$535,865)	(\$292,140)	\$243,725
See accompanying notes to the basic financial statements.				

East Liverpool City School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2003

	Private Purpose Trust	
	Endowment	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$17,074	\$68,620
Liabilities		
Due to Students	0	\$68,620
Net Assets		
Held in Trust for Scholarships	\$17,074	
See accompanying notes to the basic financial statements		

East Liverpool City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2003

	<u>Endowment</u>
Additions	
Interest	\$487
Deductions	<u>0</u>
<i>Change in Net Assets</i>	487
<i>Net Assets Beginning of Year</i>	<u>16,587</u>
<i>Net Assets End of Year</i>	<u>\$17,074</u>
See accompanying notes to the basic financial statements	

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East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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. See Note 22. The School District is the 130th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 156 non-certificated employees, 268 certified full-time teaching personnel and 26 administrative employees who provide services to 3,102 students and other community members. The School District currently operates five 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.

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 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.

The following activities are included within the reporting entity:

Parochial 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. This activity is reflected in a special revenue fund for financial reporting purposes.

The School District participates in the Area Cooperative Computer Educational Service System which is defined as a jointly governed organization. This organization is presented in Note 18 to the basic financial statements.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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 issued on or before November 30, 1989, to the governmental activities provided they do not 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.

The statement of net assets presents the financial condition of the governmental activities of the School District at 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.

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.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The difference between governmental fund assets and liabilities is reported as fund balance. The general fund and the classroom facilities capital project fund are the School District's major governmental funds:

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

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

C. Measurement Focus

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

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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, including proprietary 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".

The title I special revenue and classroom facilities capital projects funds made an advance to the general, vocational education enhancements and adult basic education special revenue funds to eliminate the funds' negative cash balances. The general and special revenue funds have interfund payables for the amount of the advance received from the special revenue and capital projects funds which have an interfund receivable for the same amount on the combined balance sheet.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

During fiscal year 2003, investments were limited to non-negotiable certificates of deposit and STAROhio. 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, 2003.

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 2003 amounted to \$29,304, which includes \$10,232 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, 2003, 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.

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 imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

I. 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. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets, except land, is depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	20 - 40 years
Furniture and Equipment	5 - 20 years
Vehicles	8 years

J. 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 School District 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 time 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.

K. 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.

L. Interfund Activity

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

M. 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.

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

N. 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 the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. 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.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

Q. 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.

R. Budgetary Data

All funds, other than agency fund, 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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund and function level for the final appropriations.

The 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 budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

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

Note 3 – Change in Accounting Principal and Restatement of Fund Balances/Net Assets

Change in Accounting Principal For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

present budgetary comparisons for the general and each major special revenue fund. This statement did not affect the presentation of the budgetary statements of the School District in fiscal year 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance It was determined that enterprise funds should be reclassified and reported as special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance, June 30, 2002	(\$681,636)	(\$13,909)	\$218,731	(\$476,814)
Fund Reclassification	1,995	0	295,253	297,248
Interpretation 6:				
Compensated Absences Payable	88,977	0	37,239	126,216
Understated Cash	0	0	8,721	8,721
Overstated Taxes Receivable	0	0	(8,719)	(8,719)
Understated Inventory	0	0	5,893	5,893
Energy Conservation Loan	0	0	482,114	482,114
Overstated Intergovernmental Payables	29,895	0	45,618	75,513
Adjusted Fund Balance, June 30, 2002	<u>(\$560,769)</u>	<u>(\$13,909)</u>	<u>\$1,084,850</u>	510,172
 GASB 34 Adjustments:				
Capital Assets				4,584,126
Pension Obligations				(144,122)
Long-Term Liabilities:				
Compensated Absences				(1,987,297)
Capital Leases				(125,741)
Energy Conservation Loan				(482,114)
Long-Term (Deferred) Assets				<u>598,734</u>
Governmental Activities Net Assets, June 30, 2002				<u>\$2,953,758</u>

East Liverpool City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 4 – Accountability and Compliance

A. Accountability

At June 30, 2003, the following funds had deficit fund balances:

<i>General Fund</i>	\$1,999,482
 <i>Special Revenue Funds</i>	
Disadvantaged Pupils Impact Aid	231,063
Vocational Education Enhancement	1,890
Vocational Education	5,953
Goals 2000	43
Reducing Classroom Size	15,704
 <i>Capital Projects Funds</i>	
Permanent Improvement	133,866
SchoolNet	9,578

The general fund deficit balance resulted from expenditures exceeding revenues. The School District will review its operations to determine the steps needed to be taken to eliminate this situation.

The special revenue funds and capital projects deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, rather than when accruals occur.

B. Legal Compliance

The School District had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10:

<i>General Fund</i>	\$292,140
 <i>Special Revenue Funds:</i>	
Vocational Education Enhancement	1,823
Adult Basic Education	28,468
Vocational Education	9,603
Goals 2000	43

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Contrary to Section 5705.41 (B), Ohio Revised Code, the following accounts had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<i>Special Revenue Funds:</i>			
Local Grants			
Pupils Support Services	\$10,648	\$14,832	\$4,184
Instructional Staff Support Services	710	1,043	333
Classroom Facilities Maintenance			
Fiscal Support Services	0	814	814
Auxilliary Services			
Operation of Non-Instructional Services	4175	186737	182562
Disadvantaged Pupil Impact Aid			
Regular Instruction	779,497	893,882	114,385
Pupils Support Services	297,999	378,937	80,938
Operation and Maintenance of Plant	9,099	107,714	98,615
Ohio Reads			
Special Instruction	5,185	120,428	115,243
Pupil Transportation	8,630	9,874	1,244
Title II			
Instructional Staff Support Services	1,346	7,331	5,985
Administration Support Services	0	910	910
Operation of Non-Instructional Services	630	790	160
Title VIB			
Instructional Staff Support Services	364,505	364,519	14
Administration Support Services	75,509	140,739	65,230
Chapter I			
Special Instruction	0	1,080,249	1,080,249
Administration Support Services	0	193,509	193,509
Drug Free Schools			
Special Instruction	36,457	36,578	121
Pupils Support Services	63	1,953	1,890
Preschool			
Fiscal Support Services	0	874	874
Goals 2000			
Special Instruction	20,635	30,578	9,943
Reducing Classroom Size			
Operation of Non-Instructional Services	1,500	2,037	537
Bond Retirement	255,635	246,106	20,741

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<i>Capital Project Fund:</i>			
Permanent Improvement			
Fiscal Support Services	\$4,444	\$4,503	\$59
Classroom Facilities			
Fiscal Support Services	30,000	40,459	10,459
Debt Service	0	7,941,318	7,941,318
Building Improvements			
Operation and Maintenance of Plant	0	22,353	22,353

Contrary to Section 5705.39, Ohio Revised Code, the following funds had original appropriations in excess of original estimated resources plus carryover balance for the fiscal year 2003:

	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
General Fund	\$21,350,169	\$21,964,939	\$614,770
<i>Special Revenue Funds:</i>			
Food Service	1,052,293	1,183,432	131,139
After Care	13,502	17,700	4,198
Athletics/Music	256,268	258,350	2,082
Management Information System	36,558	37,046	488
Schoolnet Professional Development	10,906	11,702	796
Technology Equity	30,738	37,901	7,163
Ohio Reads	107,279	158,683	51,404
Vocational Educational Enhancement	10,329	12,152	1,823
Adult Basic Education	66,575	83,051	16,476
Chapter II	21,761	32,674	10,913
Drug Free Schools	27,587	36,497	8,910
Reducing Classroom Size	220,551	343,072	122,521
Other Federal Grants	85,137	209,525	124,388
Bond Retirement	104,875	121,012	16,137

Contrary to Section 5705.39, Ohio Revised Code, the following funds had final appropriations in excess of final estimated resources plus carryover balance for the fiscal year 2003:

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
General Fund	\$21,205,901	\$21,693,643	\$487,742
Special Revenue Funds:			
Public School Support	160,428	161,363	935
After Care	15,747	27,437	11,690
Athletics/Music	257,326	481,992	224,666
Management Information System	18,543	29,057	10,514
Vocational Educational Enhancement	10,329	12,152	1,823
Adult Basic Education	54,381	83,051	28,670
Chapter II	40,943	41,220	277
Preschool Grant	21,750	22,275	525
Goals 2000	31,294	36,071	4,777
Reducing Classroom Size	334,481	343,072	8,591
Capital Projects Fund:			
Permanent Improvement	371,157	825,853	454,696
Building	96,089	187,011	90,922

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

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

Net Change in Fund Balance	
GAAP Basis	(\$1,438,713)
Net Adjustment for Revenue Accruals	356,942
Advances In	182,893
Net Adjustment for Expenditure Accruals	132,521
Adjustment for Encumbrances	<u>(270,461)</u>
Budget Basis	<u><u>(\$1,036,818)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States treasury notes, bills, bonds or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements".

Cash on Hand At year end, the School District had \$350 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$8,012,406 and the bank balance was \$8,491,585. Of the bank balance:

1. \$313,300 was covered by federal depository insurance; and
2. \$8,178,285 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form and has a carrying and a fair value of \$2,559,608.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$10,572,364	\$0
Cash on Hand	(350)	
Investments which are part of the cash management pool: STAROhio	(2,559,608)	2,559,608
GASB Statement 3	<u>\$8,012,406</u>	<u>\$2,559,608</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Columbiana County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 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, 2003 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, 2003 was \$155,343 in the general fund, \$17,502 in the bond retirement debt service fund, \$2,735 in the classroom facilities maintenance special revenue fund and \$7,894 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$ 496,983 in the general fund and \$ 25,204 in the permanent improvement capital projects 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 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$119,676,050	77.90%	\$131,486,400	80.64%
Public Utility	12,684,180	8.25	9,934,030	6.09
Tangible Personal Property	21,262,590	13.84	21,632,100	13.27
Total Assessed Value	<u>\$153,622,820</u>	<u>100.00%</u>	<u>\$163,052,530</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation		\$36.80		\$40.00

In May 2002, the School District passed a 26 year 3.2 mill bond issue for renovations and additions to school buildings.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
<i>Governmental Activities</i>				
<i>Nondepreciable Capital Assets</i>				
Land	398,820	\$0	\$0	398,820
<i>Depreciable Capital Assets</i>				
Land Improvements	553,742	0	0	553,742
Buildings and Improvements	11,632,066	0	0	11,632,066
Furniture and Equipment	4,999,019	224,045	0	5,223,064
Vehicles	1,380,968	0	0	1,380,968
Total Capital Assets, being depreciated	<u>18,565,795</u>	<u>224,045</u>	<u>0</u>	<u>18,789,840</u>
Less Accumulated Depreciation				
Land Improvements	(221,563)	(23,739)	0	(245,302)
Buildings and Improvements	(10,152,721)	(215,852)	0	(10,368,573)
Furniture and Equipment	(3,143,399)	(406,795)	0	(3,550,194)
Vehicles	(862,806)	(78,835)	0	(941,641)
Total Accumulated Depreciation	<u>(14,380,489)</u>	<u>(725,221)</u>	<u>0</u>	<u>(15,105,710)</u>
Total Capital Assets, being depreciated, Net	<u>4,185,306</u>	<u>(501,176)</u>	<u>0</u>	<u>3,684,130</u>
Governmental Activities Capital Assets, Net	<u>\$4,584,126</u>	<u>(\$501,176)</u>	<u>\$0</u>	<u>\$4,082,950</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$293,051
Special	123,279
Vocational	55,245
Support Services:	
Pupils	29,086
Instructional Staff	19,501
Administration	42,367
Fiscal	5,472
Operations and Maintenance of Plant	25,737
Pupil Transportation	71,547
Extracurricular Activity	59,936
Total Depreciation Expense	<u>\$725,221</u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 9 - Receivables

Receivables at June 30, 2003 consisted of property taxes, accounts (rent, tuition and student fees), interfund, intergovernmental 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 year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<i>Governmental Activities</i>	
Auxiliary Services	\$35,678
Post Secondary Vocational Education Grant	9,253
Vocational Education Enhancement Grant	1,823
Adult Basic Education Grant	28,670
Vocational Education Grant	10,211
Title VI	7,529
Reducing Classroom Size Grant	78,002
Classroom Facilities	<u>51,007,054</u>
Total	<u><u>\$51,178,220</u></u>

Note 10 – Interfund Transfers and Balances

Transfers made during the year ended June 30, 2003 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$0	\$104,623
Non-Major Governmental Funds	<u>104,623</u>	<u>0</u>
Total	<u><u>\$104,623</u></u>	<u><u>\$104,623</u></u>

The transfer was made from the general fund to the bond retirement fund for the energy conservation loan principal and interest payments.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Interfund balances at June 30, 2003 consist of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds		
General	\$57,203	\$21,679
Classroom Facilities	51,775	0
Nonmajor Funds		
<i>Special Revenue Funds:</i>		
Extracurricular	0	2,131
Summer Intervention	0	124
Vocational Education Enhancement	0	1,823
Adult Basic Education	0	28,230
Eisenhower Grant	0	218
Title VIB	0	35,426
Vocational Education	0	8,357
Goals 2000	0	43
Reducing Class Size	0	39
<i>Capital Project Fund:</i>		
Schoolnet	<u>0</u>	<u>10,908</u>
	<u>\$108,978</u>	<u>\$108,978</u>

Interfund receivables and payables are due to the timing of the receipt of grant monies by the nonmajor funds and due to the requirement that negative cash balances must be covered at year-end. For fiscal year 2003, the general fund negative cash balance was covered by the classroom facilities and title I funds. All interfund balances will be repaid within one year.

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District has contracted with Selective Insurance Company of South Carolina for fleet insurance, property and inland marine insurance, liability insurance and flood insurance. Coverage provided is as follows:

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Type of Coverage	Coverage Amount
Property: All Buildings and Contents (\$1,000 deductible)	\$70,521,163
Flood: Field, Building and Contents (\$25,000 deductible)	1,000,000
Inland Marine Coverage (\$1,000 deductible)	1,621,369
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 system. 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, 2003, 2002, and 2001 were \$276,552, \$170,580, and \$120,289 respectively; 58.49 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 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 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, 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 the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,745,887, \$1,165,296, and \$1,130,532 respectively; 95.92 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$4,793 made by the School District and \$ 4,246 and \$13,626, respectively, made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$134,299 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 billion at June 30, 2003. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the members' pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including surcharge, during the 2003 fiscal year, equaled \$197,343.

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 annual health care expenses. Expenses for health care for the fiscal year ended, June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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 250 days for classified personnel and 240 days for certified personnel. Upon retirement, payment is made to classified employees for one-third of the first 90 days plus 10 percent of the remaining balance up to the 250 days maximum and to certified employees for one-third of the first 90 days plus 10 percent of the remaining balance up to 240 days maximum. In no case shall a certified retiree receive less than 10 days, regardless of the number of sick days accumulated.

B. *Life Insurance*

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

C. *Health Insurance*

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

Note 15 – Short-Term Debt

During fiscal year 2001, the School District issued \$7,900,000 in bond anticipation notes for the purpose of school improvements. The notes were repaid in fiscal year 2003. These notes were backed by the full faith and credit of the School District. This note was divided between the classroom facilities and building capital projects funds.

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
<i>Capital Projects Funds:</i>				
<i>Classroom Facilities</i>				
School Improvement Note - 5.25%	\$7,806,651	\$0	\$7,806,651	\$0
<i>Building</i>				
School Improvement Note - 5.25%	93,349	0	93,349	0
Total Capital Projects Funds	<u>\$7,900,000</u>	<u>\$0</u>	<u>\$7,900,000</u>	<u>\$0</u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 16 - General Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Balance 06/30/02	Additions	Deletions	Balance 06/30/03	Amount Due in One Year
Governmental-Type Activities					
School Improvement					
Bonds QZABs 2003 0%	\$0	\$7,900,000	\$0	\$7,900,000	\$200,000
Energy Conservation Loan 5%	\$482,114	\$0	\$82,281	399,833	86,598
Compensated Absences	1,987,297	177,366	29,275	2,135,388	68,404
Capital Lease Obligation	125,741	0	54,021	71,720	71,720
<i>Total Long Term Obligations</i>	<u>\$2,595,152</u>	<u>\$8,077,366</u>	<u>\$165,577</u>	<u>\$10,506,941</u>	<u>\$426,722</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. As of June 30, 2003, none of the bond proceeds had been spent. General obligation bonds will be paid from the debt service fund. The QZABs mature in March 2018. The QZAB bonds will not be subject to redemption prior to maturity and no call provisions are offered. Since the bonds have been issued with a zero percent interest rate, the bond owners will not receive interest income from the bonds. However, the owners of the bonds that are eligible taxpayers (generally banks, insurance companies, and corporations actively in the business of lending money) will receive income on the bonds in the form of an annual federal tax credit. The amount of the QZAB credit will be equal to the product of the QZAB credit rate or 5.66 percent multiplied by the principal amount of bonds owned on the credit allowance date which is March 6, 2003 and each March 6th thereafter until maturity.

As indicated below, the principal requirement amounts do not total \$7,900,000. The School District will be making annual sinking fund payments over a fifteen year period to Bank One Trust Company, its escrow agent which will invest the sinking fund dollars at an interest rate that will generate at least \$1,974,094 over the loan period, the difference between the sinking payments and the bond principal. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the QZABs to be paid in full in March 2018.

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 taxes revenue. The energy conservation loan matures September 2007.

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

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The School District's overall legal debt margin was \$14,539,788 with an unvoted debt margin of \$163,053 at June 30, 2003. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2003, are as follows:

Year	2003 School Improvement QZAB Bonds		1997 Energy Conservation Loan	
	Principal	Interest	Principal	Interest
2004	\$200,000	\$0	\$86,598	\$18,025
2005	408,993	0	91,028	13,595
2006	408,993	0	95,686	8,937
2007	408,993	0	100,581	4,042
2008	408,993	0	25,940	216
2009 - 2013	2,044,967	0	0	0
2014 - 2018	2,044,967	0	0	0
	<u>\$5,925,906</u>	<u>\$0</u>	<u>\$399,833</u>	<u>\$44,815</u>

Note 17 - Capital Leases - Lessee Disclosure

Capital lease obligations recorded in the general fund relate to equipment leased by the School District. This lease meets the criteria for capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases." The principal amount owed on the lease is \$71,720. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003:

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Furniture and Equipment	\$132,351
Less: Accumulated Depreciation	(88,234)
Total	<u>\$44,117</u>

Such agreements provide for minimum, annual lease payments as follows:

Fiscal Year Ending June 30,	Principal
2004	\$90,000
Less: Amount Representing Interest	(18,280)
Present Value of Net Minimum Lease Payments	<u>\$71,720</u>

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 18 - 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 \$63,836 for services provided during the fiscal year ending June 30, 2003.

Note 19 - 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, 2003.

B. Litigation

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

Note 20 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, none of the amounts have been set-aside because the School District did not have the cash to do so.

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute. However, the District does not have the cash available to restrict for the set-asides. The balances will be reserved and carried forward to the next fiscal year.

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	\$31,020	\$0	\$372,511
Current Year Set-aside Requirement	456,439	456,439	0
Receipt of Refund	0	0	22,801
Qualifying Disbursements	(305,329)	0	(259,606)
Classroom Facilities Bonds	0	(7,900,000)	0
Permanent Improvement Levy	0	(228,000)	0
Total	<u>\$182,130</u>	<u>(\$7,671,561)</u>	<u>\$135,706</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$182,130</u>	<u>(\$7,671,561)</u>	<u>\$135,706</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$182,130</u>	<u>\$0</u>	<u>\$135,706</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvement set-aside amount below zero. This amount may be used to reduce the set-aside requirement of future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$317,836.

Note 21 – State School Funding Decision

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

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

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

Note 22 – Subsequent Events

A. Fiscal Watch

On September 29, 2003, the School District was declared to be in a state of “Fiscal Watch” by the Auditor of State under section 3316.03(A), Revised Code because the School District failed to submit a proposal that would eliminate the deficits for the current and next fiscal year to the Department of Education.

B. Fiscal Emergency

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 will be established to oversee all financial affairs of the School District. The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. The Commission will be comprised of the State Superintendent of Public Instruction, the

East Liverpool City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

School District Superintendent, State Director of Budget and Management, the Mayor of the City of East Liverpool, an appointee of the Superintendent of Public Instruction, an appointee of the Governor, and an appointee of the Mayor of East Liverpool. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan.

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EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	03-PU-01	10.550		\$78,992		\$78,992
National School Breakfast Program	05-PU-01	10.553	\$99,078		\$99,078	
National School Lunch Program	04-PU-01	10.555	446,693		446,693	
Summer Food Service Program for Children	N/A	10.559	5,368		5,368	
Total U.S. Department of Agriculture - Nutrition Cluster			551,139	78,992	551,139	78,992
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Title VI-B Flow Through Grant	6B-SF-2001P	84.027			283	
	6B-SF-2002P		1,440		68,451	
	6B-SF-2003P		449,495		405,572	
Total Title VI-B Flow Through Grant			450,935		474,306	
Special Education - Preschool Grant	PG-S1-2001P	84.173	(1,346)			
	PG-S1-2002P				(50)	
	PG-S1-2003P		19,879		18,082	
Total Special Education - Preschool Grant			18,533		18,032	
Total Special Education Cluster			469,468		492,338	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2001C	84.010			805	
	C1-S1-2002		199,595		184,219	
	C1-S1-2002C				50	
	C1-S1-2003		1,301,799		1,005,863	
Total ESEA Title I			1,501,394		1,190,937	
School Maintenance and Operational Assistance (Impact Aid/SAFA)	FY03	84.041	3,136		3,082	
Vocational Education Basic Grants to States	20-A0-2002	84.048	3,240		21,534	
	20-C1-2002		47,494		8,239	
	20-C1-2003		57,866		60,375	
Total Vocational Education Basic Grants to States			108,600		90,148	
Drug Free School Grant	DR-S1-2001	84.186	(126)		653	
	DR-S1-2002		7,421		3,415	
	DR-S1-2000				180	
	DR-S1-2003		34,509		21,656	
Total Drug Free School Grant			41,804		25,904	
Title II - Eisenhower Professional Development	MS-S1-2002	84.281	(27,497)		9,031	
Innovative Educational Program Strategies	C2-S1-2001	84.298	(39)		193	
	C2-S1-2002		7,425		2,133	
	C2-CC-2002				152	
	C2-S1-2003		29,368		6,067	
Total Innovative Educational Program Strategies			36,754		8,545	
Raising the Bar Challenge Grant	TJ-S1-2003	84.318	33,371		28,413	
Comprehensive School Reform Demonstration	RF-S1-2002	84.332	100,000		55,527	
	RF-CC-2003		50,000		11,817	
Total Comprehensive School Reform Demonstration			150,000		67,344	
Title VI-R Class Size Reduction Grant	CR-S1-2002	84.340	3,106		45,445	
School Renovations Grant	AT-S3-2002	84.352A	8,068			
	AT-S4-2002		4,150			
Total School Renovations Grant			12,218			
Title II A Improving Teacher Quality Program	TR-S1-2003	84.367	304,071		264,567	
Adult Basic Education	AB-S1-2002	84.002	37,537			
	AB-S1-2003		16,844		45,074	
Total Adult Basic Education			54,381		45,074	
Goals 2000 Continuous Improvement Grant	G2-S1-01	84.276			31,337	
Fund for the Improvement of Education (FIE) Grant	FY02	84.215K	46,000		40,675	
	FY03		40,000		39,000	
Total FIE Grant			86,000		79,675	
Total Department of Education			2,776,806		2,381,840	
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of MRDD:</i>						
Community Alternative Funding System (CAFS)	FY03	93.778	87,520		53,693	
Total Federal Awards			\$3,415,465	\$78,992	\$2,986,672	\$78,992

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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 nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

East Liverpool City School District
Columbiana County
500 Maryland Avenue
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, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 17, 2004, wherein we noted conditions raising substantial doubt about the District's ability to continue as a going concern. The District adopted Governmental Accounting Standards Board Statement No. 34 and Interpretation NO. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed instances of noncompliance that we have reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance, which we have reported to the management of the District in a separate letter dated December 17, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated December 17, 2004.

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

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

Betty Montgomery
Auditor of State

December 17, 2004



Auditor of State Betty Montgomery

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

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

Compliance

We have audited the compliance of East Liverpool City School District, Columbiana County, Ohio, (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 are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

December 17, 2004

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	UNQUALIFIED
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	YES
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	UNQUALIFIED
(d)(1)(vi)	Are there any reportable findings under ' .510?	NO
(d)(1)(vii)	Major Programs:	Nutrition Cluster CFDA # 10.550, 10.553, 10.555, 10.559 Title I ESEA CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	NO

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

Finding Number	2003-001
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Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The following accounts (fund/functions) had expenditures plus encumbrances exceeding appropriations as of June 30, 2003:

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
Local Grant Fund			
Pupils Support Services	\$10,648	\$14,184	\$4,184
Instructional Staff Support Services	710	1,043	333
Classrooms Facilities Maintenance Fund			
Fiscal Support Services	0	814	814
Auxiliary Services Fund/			
Community Services	4,175	186,737	182,562
Disadvantaged Pupil Impact Aid Fund			
Regular Instruction	779,497	893,882	114,385
Pupils Support Services	297,999	378,937	80,938
Operation and Maintenance of Plant	9,099	107,714	96,615
Ohio Reads Fund			
Special Instruction	5,185	120,428	115,243
Pupil Transportation	8,630	9,874	1,244
Title II Fund			
Instructional Staff Support Services	1,346	7,331	5,985
Administration Support Services	0	910	910
Operation of Non-Instructional Services	630	790	160
Title VI-B Fund			
Administration Support Services	75,509	140,739	65,230
Chapter I Fund			
Special Instruction	0	1,080,249	1,080,249
Administration Support Services	0	193,509	193,509
Drug Free Schools Fund			
Pupils Support Services	63	1,953	1,890
Preschool Fund			
Fiscal Support Services	0	874	874
Goals 2000 Fund			
Special Instruction	20,635	30,578	9,943
Reducing Classroom Size Fund			
Operation of Non Instructional Services	1,500	2,037	537
Bond Retirement Fund			
Debt Service	225,635	246,106	20,741
Classroom Facilities Fund			
Fiscal Support Services	30,000	40,459	10,459
Debt Service	0	7,941,318	7,941,318
Building Improvements Fund			
Operation of Maintenance and Plant	0	22,353	22,353

The District should monitor expenditures and amend appropriations as needed to help prevent overspending and/or deficit cash balances. The District Treasurer may deny making any expenditure which exceeds appropriations.

EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)

Finding Number	2003-002
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Ohio Revised Code § 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education if such expenditure is otherwise valid.

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

The District did not properly certify or record the amount against the applicable appropriation accounts for 39% of tested expenditures. The District did not utilize the certification exceptions described above for those expenditures lacking prior or simultaneous certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Treasurer should certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

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

Finding Number	2003-003
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Ohio Revised Code § 5705.10 provides, in part, that money paid into any fund shall be used only for the purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to pay the obligations of another fund. At June 30, 2003, the following funds had deficit cash balances:

Fund Name	Fund Number	Amount of Deficit
General Fund	001	\$292,140
Career Development Grant Fund	461	1,823
Adult Basic Education Fund	501	28,468
Vocational Education Fund	524	9,603
Goals 2000 Fund	589	43

The District should monitor fund balances more closely to avoid deficit balances. The District may consider using interfund cash advances as a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short term loans. The intent of this type of cash advance is to require repayment within the current year. See Auditor of State Bulletin 97-003 for additional requirements for making interfund cash advances.

3. FINDINGS FOR FEDERAL AWARDS

None

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 ' .315 (b)
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Ohio Revised Code § 5705.41 (B), Expenditures plus encumbrances exceed appropriations.	No	Reissued as Finding 2003-001
2002-002	Estimated resources and appropriations should be posted accurately to the ledgers	Yes	
2002-003	Federal expenditure reports were not accurately prepared and were not filed on a timely basis.	Yes	
2002-004	The District did not comply with the Cash Management requirements for federal programs.	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**EAST LIVERPOOL CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2005**