

**EAST PALESTINE CITY SCHOOL DISTRICT**

**COLUMBIANA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**

***(AUDITED)***

***FOR THE FISCAL YEAR ENDED***

***JUNE 30, 2006***

**RICK ELLIS, TREASURER**





# Mary Taylor, CPA

## Auditor of State

Board of Education  
East Palestine City School District  
200 West North Avenue  
East Palestine, Ohio 44413-1797

We have reviewed the *Independent Auditor's Report* of the East Palestine City School District, Columbiana County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

### Finding For Recovery:

The Ohio Supreme Court in *State ex. rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951) addresses the expenditure of funds for public purposes. Ohio Attorney General Opinion No. 82 – 006 cites this *McClure* and provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgement of the governmental entity, unless such determination is arbitrary or unreasonable. Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.*, 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State ex rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228.

On January 13, 2006, the District expended \$449.38 for the purchase of meals for a Christmas dinner attended by twelve individuals including Board members, Treasurer, Superintendent and other individuals not employed by the District. At that time, the District Board had not enacted a policy that identifies expenditures for the recognition of District officials, employees or individuals not employed by the District as a proper public purpose nor had it adopted a resolution declaring this Christmas dinner to be a proper public purpose expenditure of District funds. As a result, the expenditure of \$449.38 for this dinner is not considered a proper public purpose.

Board of Education  
East Palestine City School District  
200 West North Avenue East Palestine, Ohio 44413-1797  
Page -2-

Cost of Meals	\$449.00
Number of Individuals in Attendance	12
Average Cost per Individual	\$ 37.42

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended has been issued against Jeff Richardson, Superintendent, and his surety, Ohio Farmers Insurance, Rick Ellis, Treasurer, and his surety, American States Insurance, Lori Ellis, John Hersh, Board Member, Daryl Hersh, Terry Allison, Board Member, Sue Allison, Robert Ginder, Board Member, Brenda Ginder, Nancy Hoaglin, Board member, Kim Maxwell, Board Member, and Paula Maxwell, jointly and Severally, in the amount of four hundred forty-nine dollars and zero cents (\$449.00) in favor of the District's General Fund.

On April 26, 2007, the District was reimbursed in the amount of \$204.10 for the 5 Individuals in attendance at the dinner who were not employed by the District. Additionally, the Board of Education passed a resolution on May 23, 2007 stating that it was the intention of the Board that the above-mentioned Christmas dinner was for a proper public purpose. The resolution has retroactive effect in this matter, absolving the remaining attendees of their joint and several responsibilities in the amount of \$244.90.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The East Palestine City School District is responsible for compliance with these laws and regulations.



Mary Taylor, CPA  
Auditor of State

July 5, 2007

**EAST PALESTINE CITY SCHOOL DISTRICT**  
**COLUMBIANA COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	15
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non GAAP Basis) and Actual - General Fund .....	17
Statement of Fund Net Assets - Internal Service Fund .....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Fund .....	19
Statement of Cash Flows - Internal Service Fund .....	20
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	21
Notes to the Basic Financial Statements.....	22 - 48
Supplemental Data:	
Schedule of Receipts and Expenditures of Federal Awards.....	49
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	50 - 51
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i> .....	52 - 53
Schedule of Findings <i>OMB Circular A-133 § .505</i> .....	54 - 55
Status of Prior Audit Findings.....	56

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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### Independent Auditor's Report

Board of Education  
East Palestine City School District  
200 West North Ave.  
East Palestine, Ohio 44413

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County (the "District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the East Palestine City School 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 the 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 basic 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 Palestine City School District, Columbiana County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report  
East Palestine City School District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Palestine City School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as 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 of the East Palestine City School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.  
December 18, 2006



East Palestine City School District  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
(Unaudited)

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The management's discussion and analysis of the East Palestine City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's 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 2006 are as follows:

- General Revenues accounted for \$10,220,937 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,287,534 or 18 percent of total revenues of \$12,508,471.
- Total program expenses were \$12,071,430.
- Net assets of governmental activities increased \$437,041, which represents a 2 percent increase from 2005.
- Outstanding note and bonded debt decreased from \$6,190,935 to \$2,186,430 through principal payments.

***Using this Annual Financial Report***

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the East Palestine City School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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 the East Palestine City School District, the general fund and debt service fund are by far the most significant funds.

***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

East Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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***Reporting the School District as a Whole (Continued)***

*Statement of Net Assets and the Statement of Activities (Continued)*

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 reader 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 which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District only includes governmental activities:

- Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation 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 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the debt service fund and the permanent improvement capital projects fund.

**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 year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, 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 services 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 Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

***The School District as a Whole***

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

**(Table 1)**  
**Net Assets**

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current and Other Assets	\$ 6,081,445	\$ 8,543,316
Capital Assets	23,613,087	23,839,616
Total Assets	29,694,532	32,382,932
<b>Liabilities</b>		
Long-Term Liabilities	2,780,650	6,778,697
Other Liabilities	4,783,325	3,910,719
Total Liabilities	7,563,975	10,689,416
<b>Net Assets</b>		
Invested in Capital Assets Net of Debt	21,403,987	17,566,598
Restricted	1,315,891	4,698,155
Unrestricted (Deficit)	(589,321)	(571,237)
Total Net Assets	\$ 22,130,557	\$ 21,693,516

Total governmental assets decreased by \$2,688,400. The majority of the decrease is due to a decrease in cash. A decrease of \$226,529 in total capital assets reflects current year depreciation exceeding current year additions. Total governmental liabilities decreased by \$3,124,441, which is mostly due to outstanding debt being repaid.

East Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

***The School District as a Whole (Continued)***

Table 2 shows the changes in net assets for fiscal year 2006 and 2005. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)**  
**Change in Net Assets**

	Governmental Activities	Governmental Activities
	2006	2005
<b><i>Revenues</i></b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 676,309	\$ 785,760
Operating and Capital Grants	1,611,225	1,628,494
<i>General Revenue:</i>		
Property Taxes	3,573,031	3,334,344
Grants and Entitlements	6,572,996	6,401,564
Other	74,910	81,897
<i>Total Revenues</i>	12,508,471	12,232,059
<b><i>Program Expenses</i></b>		
Instruction	6,449,019	6,266,492
Support Services	4,604,040	5,417,475
Operation of Non-Instructional	614,752	457,388
Extracurricular Activities	371,293	352,762
Interest and Fiscal Charges	32,326	164,735
<i>Total Expenses</i>	12,071,430	12,658,852
Increase (Decrease) in Net Assets	\$ 437,041	\$ (426,793)

East Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental 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. All governmental funds had total revenues of \$12,508,471 and expenditures of \$12,071,430.

**(Table 3)**  
**Governmental Activities**  
**Cost of Services**

	2006	2005	2006	2005
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 6,449,019	\$ 6,266,492	\$ (4,964,124)	\$ (4,916,629)
Support Services:				
Pupil and Instructional Staff	1,039,395	1,135,874	(966,153)	(1,019,974)
Board of Education, Administration, Fiscal and Business	1,566,675	1,761,569	(1,566,675)	(1,526,232)
Operation and Maintenance of Plant	1,427,077	1,917,115	(1,402,298)	(1,895,018)
Pupil Transportation	570,893	602,917	(564,956)	(602,917)
Operation of Non-Instructional	614,752	457,388	(115,053)	37,401
Extracurricular Activities	371,293	352,762	(172,311)	(156,494)
Interest and Fiscal Charges	32,326	164,735	(32,326)	(164,735)
Total Expenses	<u>\$ 12,071,430</u>	<u>\$ 12,658,852</u>	<u>\$ (9,783,896)</u>	<u>\$ (10,244,598)</u>

Instruction and student support services comprise 62 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 17 percent of governmental program expenses.

The dependence upon tax revenues and general revenue entitlements from the state for governmental activities is apparent. The community, as a whole, is the second largest area of support for East Palestine City School District students.

East Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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**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 budgeted fund is the general fund.

During the course of fiscal year 2006, the School District did modify its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, final budget basis revenue, including other financing sources, was \$9,556,003, under the original budget estimates of \$9,445,651. Actual revenue, including other financing sources, was \$9,453,711 which is \$102,292 less than the final budget. Of this \$102,292 decrease, most was attributable to decreased intergovernmental revenue.

Final appropriations, including other financing uses, of \$10,131,927 were approximately \$338,100 higher than the \$9,783,827 in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Actual budget expenditures, including other financing uses, was \$9,630,920, which is \$501,007 less than final appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the School District had \$23,613,087 invested in land, land improvements, buildings, and building improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities	
	2006	2005
Land	\$ 475,814	\$ 475,814
Land Improvements	0	0
Buildings and Building Improvements	22,775,711	22,960,994
Furniture and Equipment	218,783	202,730
Vehicles	142,779	200,078
Totals	\$ 23,613,087	\$ 23,839,616

The \$226,529 decrease in capital assets was attributable to depreciation expense exceeding current year additions.

East Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
 For the Fiscal Year Ended June 30, 2006  
 (Unaudited)

**Capital Assets and Debt Administration (Continued)**

**Capital Assets (Continued)**

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks. For fiscal year 2006, this amounted to \$205,035 for each set aside. The School District had qualifying disbursements or offsets exceeding these requirements for capital improvements. The School District has budgeted to meet these requirements.

**Debt**

At June 30, 2006, the School District had \$2,175,799 in bonds outstanding with all of it due within one year. During fiscal year 2006, \$6,141,356 of bonds were retired. The School District reissued \$2,126,220 of bond anticipation notes during fiscal year 2006. Table 5 summarizes bonds outstanding.

**(Table 5)**  
**Outstanding Debt, at June 30**

	Governmental Activities 2006	Governmental Activities 2005
Energy Conservation Bonds	\$ 49,579	\$ 97,715
Bond Anticipation Notes	2,126,220	6,093,220
Totals	\$ 2,175,799	\$ 6,190,935

In 1983, the School District passed a tax levy and issued \$4,250,000 in bonds for renovations to the four buildings in the School District. In 1995, the School District passed a tax levy and issued \$5,625,000 in bond anticipation notes for the construction of a new Middle School, classroom additions, and the refurbishing of the former Middle School (now known as the Intermediate School). In 1999, State Facility Bond anticipation note was issued for \$1,354,000 with the State providing \$13,691,923.

East Palestine City School District  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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***Current Issues***

The East Palestine City School District continues to receive strong support from the residents of the School District. The School District property tax levy is at the 20 mil floor and anticipates staying there.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 29% of revenues for governmental activities for the East Palestine City School District in fiscal year 2006.

The School District has also been affected by changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. An increase in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance has been difficult to budget with stagnate income.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The East Palestine City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the East Palestine City School District. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

***Contacting the School District's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to 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 Rick Ellis, Treasurer of East Palestine City School District, 200 W. North Avenue, East Palestine, Ohio 44413 or epal\_re@access-k12.org.



**East Palestine City School District**

*Statement of Net Assets*

*June 30, 2006*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,720,189
Cash and Cash Equivalents:	
In Segregated Accounts	206,503
With Fiscal Agents	29,893
Investments in Segregated Accounts	64,389
Receivables:	
Taxes	3,947,322
Accounts	531
Intergovernmental	110,306
Inventory Held For Resale	2,312
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets (Net)	<u>23,137,273</u>
<i>Total Assets</i>	<u>29,694,532</u>
<b>Liabilities</b>	
Accounts Payable	303,161
Accrued Wages and Benefits	871,646
Intergovernmental Payable	234,958
Deferred Revenue	3,257,681
Accrued Interest Payable	5,847
Claims Payable	110,032
Long Term Liabilities:	
Due Within One Year	2,247,052
Due In More Than One Year	<u>533,598</u>
<i>Total Liabilities</i>	<u>7,563,975</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	21,403,987
Restricted for:	
Capital Projects	552,044
Debt Service	401,713
Other Purposes	253,076
Set Asides	109,058
Unrestricted	<u>(589,321)</u>
<i>Total Net Assets</i>	<u>\$ 22,130,557</u>

See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 4,906,554	\$ 278,587	\$ 102,128	\$ 0	\$ (4,525,839)
Special	1,444,225	0	1,075,974	0	(368,251)
Vocational	98,240	0	28,206	0	(70,034)
Support Services:					
Pupils	667,416	0	44,462		(622,954)
Instructional Staff	371,979	0	14,700	14,080	(343,199)
Board of Education	46,941	0	0	0	(46,941)
Administration	829,243	0	0	0	(829,243)
Fiscal	251,360	0	0	0	(251,360)
Business	439,131	0	0	0	(439,131)
Operation and Maintenance of Plant	1,427,077	0	24,779	0	(1,402,298)
Pupil Transportation	570,893	0	0	5,937	(564,956)
Operation of Non-Instructional Services:					
Food Service Operations	609,728	204,410	286,133	0	(119,185)
Community Services	5,024	0	9,156	0	4,132
Extracurricular Activities	371,293	193,312	5,670	0	(172,311)
Interest and Fiscal Charges	32,326	0	0	0	(32,326)
<b>Totals</b>	<b>\$ 12,071,430</b>	<b>\$ 676,309</b>	<b>\$ 1,591,208</b>	<b>\$ 20,017</b>	<b>(9,783,896)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	2,238,001
Debt Service	758,180
Capital Outlay	576,850
Grants and Entitlements not Restricted to Specific Programs	6,572,996
Investment Earnings	63,180
Miscellaneous	11,730

*Total General Revenues* 10,220,937

Change in Net Assets 437,041

*Net Assets Beginning of Year* 21,693,516

*Net Assets End of Year* \$ 22,130,557

See accompanying notes to the basic financial statements.

**East Palestine City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 637,130	\$ 202,442	\$ 120,292	\$ 547,977	\$ 1,507,841
Cash and Cash Equivalents In Segregated Accounts	0	0	0	206,503	206,503
Investments in Segregated Accounts	0	0	0	64,389	64,389
Receivables:					
Taxes	2,509,142	820,331	566,664	51,185	3,947,322
Accounts	450	0	0	81	531
Interfund	26,586	0	0	0	26,586
Intergovernmental	0	0	0	110,306	110,306
Inventory Held For Resale	0	0	0	2,312	2,312
Restricted Cash and Cash Equivalents	114,995	0	0	0	114,995
<i>Total Assets</i>	<u>\$ 3,288,303</u>	<u>\$ 1,022,773</u>	<u>\$ 686,956</u>	<u>\$ 982,753</u>	<u>\$ 5,980,785</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 124,507	\$ 0	\$ 137,197	\$ 41,457	\$ 303,161
Accrued Wages and Benefits	797,086	0	0	74,560	871,646
Interfund Payable	0	0	0	26,586	26,586
Intergovernmental Payable	233,123	0	0	1,835	234,958
Deferred Revenue	2,313,120	756,727	516,759	132,243	3,718,849
<i>Total Liabilities</i>	<u>3,467,836</u>	<u>756,727</u>	<u>653,956</u>	<u>276,681</u>	<u>5,155,200</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	228,258	4,624	28,587	57,264	318,733
Reserved for Bus Purchase Allowance	5,937	0	0	0	5,937
Reserved for Property Taxes	196,022	63,604	49,905	3,973	313,504
Reserved for Textbook/Instructional Materials	109,058	0	0	0	109,058
Unreserved, Undesignated, Reported in:					
General Fund	(718,808)	0	0	0	(718,808)
Special Revenue Funds	0	0	0	475,966	475,966
Debt Service Fund	0	197,818	0	0	197,818
Capital Projects Funds	0	0	(45,492)	168,869	123,377
<i>Total Fund Balances</i>	<u>(179,533)</u>	<u>266,046</u>	<u>33,000</u>	<u>706,072</u>	<u>825,585</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,288,303</u>	<u>\$ 1,022,773</u>	<u>\$ 686,956</u>	<u>\$ 982,753</u>	<u>\$ 5,980,785</u>

See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2006*

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<b>Total Governmental Fund Balances</b>	\$	825,585
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*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		23,613,087
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 85,031	
Delinquent Property Taxes	376,137	461,168

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		17,214
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In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.		(5,847)
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Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	\$ (49,579)	
Premium on Bond Anticipation Notes	(10,631)	
Bond Anticipation Notes	(2,126,220)	
Compensated Absences	(560,919)	
Capital Leases Payable	(33,301)	(2,780,650)

<i>Net Assets of Governmental Activities</i>	\$	22,130,557
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See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 2,255,735	\$ 776,491	\$ 522,392	\$ 46,819	\$ 3,601,437
Intergovernmental	6,827,101	91,364	59,620	1,164,874	8,142,959
Interest	0	0	0	63,180	63,180
Tuition and Fees	278,587	0	0	0	278,587
Extracurricular Activities	0	0	0	193,312	193,312
Charges for Services	0	0	0	204,410	204,410
Contributions and Donations	3,448	0	0	14,826	18,274
Miscellaneous	10,092	0	0	1,638	11,730
<i>Total Revenues</i>	<u>9,374,963</u>	<u>867,855</u>	<u>582,012</u>	<u>1,689,059</u>	<u>12,513,889</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	4,212,133	0	0	107,893	4,320,026
Special	759,272	0	0	653,484	1,412,756
Vocational	97,590	0	0	0	97,590
Support Services:					
Pupils	573,466	0	0	80,489	653,955
Instructional Staff	333,775	0	22,632	36,816	393,223
Board of Education	46,459	0	0	0	46,459
Administration	761,993	0	0	62,219	824,212
Fiscal	218,643	19,737	10,489	915	249,784
Business	439,131	0	0	0	439,131
Operation and Maintenance of Plant	951,838	0	3,778	130,871	1,086,487
Pupil Transportation	493,572	0	0	11,686	505,258
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	605,281	605,281
Community Services	1,500	0	0	3,524	5,024
Extracurricular activities	183,285	0	0	178,454	361,739
Capital outlay	0	0	621,424	89,136	710,560
Debt service:					
Principal retirement	48,781	6,141,356	0	0	6,190,137
Interest and fiscal charges	1,705	166,959	0	0	168,664
<i>Total Expenditures</i>	<u>9,123,143</u>	<u>6,328,052</u>	<u>658,323</u>	<u>1,960,768</u>	<u>18,070,286</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>251,820</u>	<u>(5,460,197)</u>	<u>(76,311)</u>	<u>(271,709)</u>	<u>(5,556,397)</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds of Notes	0	2,126,220	0	0	2,126,220
Premium on Bonds and Notes Issued	0	10,631	0	0	10,631
Transfers In	0	0	0	54,719	54,719
Transfers Out	(54,719)	0	0	0	(54,719)
<i>Total Financing Sources (Uses)</i>	<u>(54,719)</u>	<u>2,136,851</u>	<u>0</u>	<u>54,719</u>	<u>2,136,851</u>
<i>Net Change in Fund Balance</i>	197,101	(3,323,346)	(76,311)	(216,990)	(3,419,546)
<i>Fund Balance Beginning of Year</i>	<u>(376,634)</u>	<u>3,589,392</u>	<u>109,311</u>	<u>923,062</u>	<u>4,245,131</u>
<i>Fund Balance End of Year</i>	<u>\$ (179,533)</u>	<u>\$ 266,046</u>	<u>\$ 33,000</u>	<u>\$ 706,072</u>	<u>\$ 825,585</u>

See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (3,419,546)

*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	\$ 396,654	
Current Year Depreciation	(620,054)	(223,400)

Net effect of transactions involving sale of capital assets are not reflected in the funds	(3,129)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Grants	22,988	
Delinquent Property Taxes	(28,406)	(5,418)

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

Bond Principal	6,141,356	
Capital Leases	48,781	6,190,137

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	136,338
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Other financing sources in the governmental funds that increase long-term in the statement of net assets are not reported as revenues in the statement of activities.

Proceeds of Notes	(2,126,220)	
Note Premium	(10,631)	(2,136,851)

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

Accrued Vacation	22,576	
Compensated Absences	(55,239)	(32,663)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

(68,427)

<i>Change in Net Assets of Governmental Activities</i>	<b>\$ 437,041</b>
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See accompanying notes to the basic financial statements.

**East Palestine 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, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$ 2,334,097	\$ 2,160,643	\$ 2,119,005	\$ (41,638)
Intergovernmental	6,622,995	6,698,322	6,827,101	128,779
Tuition and Fees	280,389	364,294	289,030	(75,264)
Rent	0	2,400	0	(2,400)
Contributions and Donations	3,345	4,000	3,448	(552)
Miscellaneous	9,790	20,600	10,092	(10,508)
<i>Total Revenues</i>	<u>9,250,616</u>	<u>9,250,259</u>	<u>9,248,676</u>	<u>(1,583)</u>
<b>Expenditures</b>				
Current				
Instruction:				
Regular	4,653,320	4,366,623	4,242,804	123,819
Special	421,568	780,881	723,004	57,877
Vocational	66,700	99,346	91,915	7,431
Support Services:				
Pupils	653,948	644,401	619,898	24,503
Instructional Staff	350,840	337,036	331,112	5,924
Board of Education	70,649	51,482	49,099	2,383
Administration	907,266	854,153	788,743	65,410
Fiscal	251,491	259,704	222,574	37,130
Business	526,940	564,596	543,265	21,331
Operation and Maintenance of Plant	1,133,602	1,192,417	1,065,896	126,521
Pupil Transportation	548,428	576,428	536,246	40,182
Operation of Non-Instructional Services:				
Community Services	2,000	2,000	500	1,500
Extracurricular Activities:				
Academic Oriented Activities	70,375	70,375	64,007	6,368
Sport Oriented Activities	124,700	125,450	120,236	5,214
<i>Total Expenditures</i>	<u>9,781,827</u>	<u>9,924,892</u>	<u>9,399,299</u>	<u>525,593</u>
Excess of Revenues Over (Under) Expenditures	<u>(531,211)</u>	<u>(674,633)</u>	<u>(150,623)</u>	<u>524,010</u>
<b>Other Financing Sources (Uses)</b>				
Other Financing Uses	(2,000)	(2,000)	0	2,000
Advances In	0	54,720	0	(54,720)
Advances Out	0	0	(26,586)	(26,586)
Transfers In	205,035	251,024	205,035	(45,989)
Transfers Out	0	(205,035)	(205,035)	0
<i>Total Other Financing Sources (Uses)</i>	<u>203,035</u>	<u>98,709</u>	<u>(26,586)</u>	<u>(125,295)</u>
<i>Net Change in Fund Balance</i>	<u>(328,176)</u>	<u>(575,924)</u>	<u>(177,209)</u>	<u>398,715</u>
<i>Fund Balance Beginning of Year</i>	594,192	594,192	594,192	0
Prior Year Encumbrances Appropriated	<u>78,116</u>	<u>78,116</u>	<u>78,116</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 344,132</u>	<u>\$ 96,384</u>	<u>\$ 495,099</u>	<u>\$ 398,715</u>

See accompanying notes to the basic financial statements.

**East Palestine City School District**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2006*

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	Governmental Activities Internal Service Fund
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 97,353
Cash with Fiscal Agents	<u>29,893</u>
<i>Total Assets</i>	<u>127,246</u>
<b>Liabilities</b>	
Claims Payable	<u>110,032</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$ 17,214</u></u>

See accompanying notes to the basic financial statements.



**East Palestine City School District**  
*Statement of Revenues, Expenses, and Changes in Fund Net Assets*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service Fund
<b>Operating Revenues</b>	
Charges for Services	\$ 1,397,511
<b>Operating Expenses</b>	
Fringe Benefits	13,568
Purchased Services	67,195
Claims	1,390,960
Other	890
<i>Total Operating Expenses</i>	1,472,613
Operating Loss	(75,102)
<b>Non-Operating Revenue</b>	
Interest	6,675
<i>Net Change in Net Assets</i>	(68,427)
<i>Net Assets Beginning of Year</i>	85,641
<i>Net Assets End of Year</i>	\$ 17,214

See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service Fund
<hr/>	
<i>Decrease in Cash and Cash Equivalents</i>	
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 1,397,511
Cash Paid for Goods and Services	(67,195)
Cash Paid to Employees	(13,568)
Cash Paid for Claims	(1,362,354)
Other Cash Payments	(890)
	<hr/>
<i>Net Cash Used For Operating Activities</i>	<u>(46,496)</u>
<b>Cash Flows From Investing Activities</b>	
Interest on Investments	6,675
	<hr/>
<i>Net Decrease in Cash and Cash Equivalents</i>	(39,821)
<i>Cash and Cash Equivalents Beginning of Year</i>	<hr/> 167,067
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 127,246</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used For Operating Activities</b>	
Operating Loss	\$ (75,102)
Adjustments:	
Increase in Claims Payable	28,606
	<hr/>
<i>Net Cash Used For Operating Activities</i>	<u><u>\$ (46,496)</u></u>

See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2006*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	\$ 42,813
Accounts Receivable	<u>2,225</u>
<i>Total Assets</i>	<u><u>45,038</u></u>
 <b>Liabilities</b>	
Accounts Payable	\$ 97
Due to Students	<u>44,941</u>
<i>Total Liabilities</i>	<u><u>\$ 45,038</u></u>

See accompanying notes to the basic financial statements.

**East Palestine City School District**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 1: Nature of Basic Operations and Description of the Entity**

The East Palestine City School District (the "School District") was 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 is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2005, was 1,407. The School District employs 93 certificated and 36 non-certificated employees.

***Reporting Entity***

The reporting entity is required to be comprised of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements of the 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 the School District, this includes general operations, food service 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 provides 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 does not have any component units.

The School District is involved with Area Cooperative Computerized Educational Service System (ACCESS), and the Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 18. The East Palestine Public Library is a related organization of the School District, which is presented in Note 17 to the basic financial statements.

Management believes the basic financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

**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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

***A. Basis of Presentation***

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 activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or 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 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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. There are three categories of funds: governmental, proprietary, and fiduciary.

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

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

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

**Bond Retirement Fund** The bond retirement fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds and bond anticipation notes used for the construction and renovation of buildings within the School District.

**Permanent Improvement Fund** The permanent improvement fund accounts for financial transactions related to the acquiring, constructing, or improving the permanent improvements as authorized by Ohio law.

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

**Proprietary Fund Type** Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows and are classified as either enterprise or internal service. The School District only has an internal service fund.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program for employee health care and prescription drug benefits.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund. The School District's agency fund accounts for student activities.

**C. Measurement Focus**

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

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

***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 (i.e., revenues and other financing sources) and uses (i.e., 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund.

***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. Proprietary and 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.

***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 the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal 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.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student 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, 2006, but which were levied to finance fiscal year 2007 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, all cash received by the School District is pooled. Monies for all funds, including the internal service fund, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2006, investments were limited to certificates of deposit, overnight sweep accounts, Federal Home Loan Bank notes, Federal Home Loan Mortgage Corporation notes, and Federal National Mortgage Association discount notes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. The School District's Board Resolution does not provide any interest allocation to the General Fund. Total interest revenue during fiscal year 2006 amounted to \$63,180.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are presented on the basic financial statements as cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are presented on the basic financial statements as investments.



**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

***F. Inventory***

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means the cost of inventory items are recorded as expenditures in the governmental funds when consumed.

Inventory consists of donated and purchased food held for resale.

***G. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and unspent resources restricted for the purchase of buses. See Note 14 for additional information regarding set asides.

***H. Capital Assets***

General capital assets are those assets that 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 capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	20 - 50 Years
Improvements Other Than Buildings	20 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 Years

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

***I. Interfund Balances***

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

***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 employer will compensate the employees for the benefits through paid time off or some other means.

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

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

***K. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from internal service funds are reported on the propriety fund 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 compensated absences 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 fiscal year. Bonds, long-term bond anticipation notes, and capital leases are recognized as a liability on the fund financial statements when due.

***L. 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.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

***M. Fund Balance Reserves***

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, property taxes, text-book/instructional materials and school bus purchases.

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

***N. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

***O. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***P. 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. Neither type of transaction occurred during fiscal 2006.

***Q. Estimates***

The preparation of 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.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 2: Summary of Significant Accounting Policies (Continued)**

***R. Budgetary Data***

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

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

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 fiscal year.

***S. Changes in Accounting Principles***

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Statement No. 47, *Accounting for Termination Benefits*.

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitations as to the period of time during which the benefits are offered.

The implementation of these GASB statements did not have an effect on the financial statements of the School District.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 3: Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund 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 that:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund:

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
GAAP Basis	\$ 197,101
Net Adjustment for Revenue Accruals	78,748
Net Adjustment for Expenditure Accruals	(169,448)
Advances Out	(26,586)
Encumbrances	(257,024)
Budgetary Basis	\$ (177,209)

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 4: Fund Deficits**

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ (179,533)
Other Governmental Funds:	
Title I - FY 2002	(84,574)

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

**Note 5: 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.

Interim monies to 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 Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 5: Deposits and Investments (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must 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 acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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 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.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

**Note 5: Deposits and Investments (Continued)**

***Deposits with Financial Institutions***

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At fiscal year-end, the carrying amount of the School District's deposits was \$796,078. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$580,425 of the School District's bank balance of \$835,299 was exposed to custodial risk as discussed above, while \$254,874 was covered by Federal Deposit Insurance Corporation.

***Investments***

As of June 30, 2006, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
Federal Home Loan Mtg. Corp.	\$ 98,474	\$ 98,474	\$ 0	\$ 0	\$ 0
Federal Home Loan Banks	246,563	246,563			
Federal National Mtg. Assoc.	99,469	99,469			
Repurchase Agreement	793,310	793,310	0	0	0
Total	<u>\$ 1,237,816</u>	<u>\$ 1,237,816</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

***Interest Rate Risk.*** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to five years or less.

***Credit Risk.*** The School District's investments in Federal Home Loan Banks, Federal Home Loan Mortgage Corp. and Federal National Mortgage Assoc. were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

***Custodial Risk.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.



**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

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**Note 5: Deposits and Investments (Continued)**

**Concentration of Credit Risk.** The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2006:

Investment Type	Fair Value	Percent of Total
Federal Home Loan Mtg. Corp.	\$ 98,474	7.95%
Federal Home Loan Banks	246,563	19.92%
Federal National Mtg. Assoc.	99,469	64.09%
Repurchase Agreement	793,310	8.04%
Total	\$ 1,237,816	100.00%

**Funds Held by Fiscal Agent**

The School District participates in the Columbiana County Insurance Consortium for employee benefits. The bank balance at fiscal year end for the Employee Benefit Self-Insurance Fund was \$29,893. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

**Cash in Segregated Accounts**

The School District places certain funds in separate bank accounts such as: food service, principal funds and student activities. These are part of the deposit pool, but are held in separate bank accounts.

**Note 6: Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar year 2006 for real and public utility property taxes represent collections of calendar year 2005 taxes. Property tax payments received during calendar year 2006 for tangible personal property (other than public utility property) is for calendar year 2006 taxes.

2006 real property taxes were levied after April 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2004, were levied after April 1, 2005, and were collected in 2005 with real property taxes.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

**Note 6: Property Taxes (Continued)**

2006 tangible personal property taxes were levied after April 1, 2005 on the values as of December 31, 2005. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005		2006	
	Second-Half Collections		First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and other real estate	\$ 93,463,930	78%	\$ 94,350,160	78%
Commercial Industrial	12,851,120	11%	12,699,100	11%
Tangible Personal Property	<u>13,206,730</u>	<u>11%</u>	<u>13,795,840</u>	<u>11%</u>
 Total Assessed Value	 <u>\$ 119,521,780</u>	 <u>100%</u>	 <u>\$ 120,845,100</u>	 <u>100%</u>
 Tax rate per \$1,000 of assessed value		 <u>\$ 33.30</u>		 <u>\$ 36.10</u>

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 later payment dates to be established.

Tangible personal property taxes paid 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.

The School District receives property taxes from Columbiana County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including East Palestine City School District. The County Auditor periodically remits to the District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the School District as an advance at June 30, 2006 was \$313,504.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

**Note 7: Receivables**

Receivables at June 30, 2006, consisted of taxes, accounts (fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal Funds. All are expected to be received within one year.

**Note 8: Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2006 was as follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006
<b>Governmental Activities:</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
 <i>Capital Assets, being depreciated:</i>				
Land Improvements	277,160	0	0	277,160
Building and building improvements	26,155,233	376,455	0	26,531,688
Furniture and equipment	527,972	20,199	0	548,171
Vehicles	849,614	0	(5,845)	843,769
<i>Total Capital Assets, being depreciated</i>	<u>27,809,979</u>	<u>396,654</u>	<u>(5,845)</u>	<u>28,200,788</u>
 <i>Less Accumulated Depreciation:</i>				
Land Improvements	(277,160)	0	0	(277,160)
Building and building improvements	(3,194,239)	(561,738)	0	(3,755,977)
Furniture and equipment	(325,242)	(4,146)	0	(329,388)
Vehicles	(649,536)	(54,170)	2,716	(700,990)
<i>Total Accumulated Depreciation</i>	<u>(4,446,177)</u>	<u>(620,054) *</u>	<u>2,716</u>	<u>(5,063,515)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>23,363,802</u>	<u>(223,400)</u>	<u>(3,129)</u>	<u>23,137,273</u>
 <i>Governmental Activities Capital Assets, net</i>	<u>\$ 23,839,616</u>	<u>\$ (223,400)</u>	<u>\$ (3,129)</u>	<u>\$ 23,613,087</u>

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

Instruction:	
Regular	\$ 553,824
Support Services:	
Instructional Staff	1,488
Board of Education	466
Operation and Maintenance	124
Pupil Transportation	50,152
Operation of Non-Instructional Services	4,446
Extracurricular Activities	9,554
	_____
Total Depreciation Expense	<u>\$ 620,054</u>

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

**Note 9: Long-Term Obligations**

The changes in the School District's long-term obligations during the fiscal year 2006 were as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due In One Year
Energy Conservation Bonds, 4.21% interest rate, maturing April 2007	\$ 97,715	\$ 0	\$ (48,136)	\$ 49,579	\$ 49,579
Bond Anticipation Note, 1.60% interest rate, maturing June 2006	6,093,220	0	(6,093,220)	0	0
Bond Anticipation Note, 4.50% interest rate, maturing June 2007	0	2,126,220	0	2,126,220	2,126,220
Premium Bond Anticipation Note	0	10,631	0	10,631	10,631
Capital Leases	82,082	0	(48,781)	33,301	33,301
Compensated Absences payable	505,680	96,238	(40,999)	560,919	27,321
<i>Total Governmental Activities</i>					
<i>Long - Term Obligations</i>	<u>\$ 6,778,697</u>	<u>\$ 2,233,089</u>	<u>\$ (6,231,136)</u>	<u>\$ 2,780,650</u>	<u>\$ 2,247,052</u>

Bond anticipation notes were issued to provide funds for the acquisition and construction of facilities and equipment. Energy conservation bonds were issued to provide for energy improvements to various buildings. All are direct obligations of the School District for which the full faith and credit of the School District are pledged for repayment.

The bond anticipation notes were issued with a premium of \$10,631 which will be amortized to interest expense over the life of the note.

Compensated absences will be paid out of the fund from which the employees' salaries are paid. The bond anticipation notes will be paid out of the debt service funds. The energy conservation bonds and capital leases will be paid out of the general fund, which has been the practice in prior years.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2006 are as follows:

Years ending June 30,	Energy Conservation Bonds		Bond Antipation Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	<u>\$ 49,579</u>	<u>\$ 974</u>	<u>\$ 2,126,220</u>	<u>\$ 94,295</u>	<u>\$ 2,175,799</u>	<u>\$ 95,269</u>

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 10: Capitalized Leases – Lessee Disclosure**

In prior years, the School District entered into a lease agreement for copiers. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments reflected as debt service in the basic financial statements for the government funds.

These assets have been capitalized in the governmental capital assets in the amount of \$145,000, the present value of the minimum lease payments at the inception of each lease. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease. Accumulated depreciation totaled \$130,500 at June 30, 2006, resulting in a net book value of \$14,500.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006:

	<u>Copiers</u>
Year ending June 30, 2007	\$ 33,658
Less: amount representing interest	(357)
Present value of minimum lease payments	\$ 33,301

**Note 11: Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 11: Defined Benefit Pension Plans (Continued)**

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$673,344, \$613,224 and \$636,696, respectively; 82 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$118,320, representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the respective funds.

***B. School Employees Retirement System***

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, Columbus, Ohio 43215, or by calling (614) 222-5853.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 11: Defined Benefit Pension Plans (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$199,524, \$223,800 and \$190,836, respectively; 59 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$81,480, representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the respective funds.

**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, 2006, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**Note 12: Postemployment Benefits**

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$48,096 during fiscal 2006.

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

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 12: Postemployment Benefits (Continued)**

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

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease from 4.91 percent for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employee's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$72,314 during the 2006 fiscal year.

Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (the latest information available), the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. SERS has 58,123 participants currently receiving health care benefits.

**Note 13: Other Employee Benefits**

**A. *Compensated Absences***

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. 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 to a maximum of 260 days for all employees. Upon retirement, certificated employees receive payment for 25 percent of 144 accrued sick leave days plus 10 percent of all sick leave days accrued above and beyond the first 144 days up to the maximum accumulation. Classified employees receive payment for 25 percent of 135 days accrued sick leave days plus 10 percent of all sick leave days accrued above and beyond the first 135 days up to the maximum accumulation.

**B. *Life Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to contracted employees through Safeco, Inc.



**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 14: Statutory Reserves**

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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Textbook Reserve	Capital Acquisition
Set-Aside Balance as of June 30, 2005	\$ 59,759	\$ 0
Current Year Set-Aside Requirement	205,035	205,035
Carryover From Prior Years	0	(1,354,000)
Current Year Offsets	0	(528,647)
Current Year Qualifying Disbursements	(155,736)	0
Total	\$ 109,058	\$ (1,677,612)
Balance Carried Forward to Future Fiscal Years	\$ 109,058	\$ (1,354,000)
Cash Balance Carried Forward to Fiscal Year 2006	\$ 109,058	\$ 0

The School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero. A portion of this extra amount (\$1,354,000) may be used to reduce the set-aside requirements for future years.

A schedule of the restricted net assets at June 30, 2006 follows:

Amount restricted for textbooks	\$ 109,058
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**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 15: Risk Management**

**A. General Insurance**

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the School District has property and liability insurance coverage as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and contents – replacement coverage	\$ 1,000	\$ 45,374,930
Boiler and machinery – blanket limit	500	5,000,000
Crime insurance	500	25,000
Automobile liability	0	2,000,000
Uninsured motorists	0	1,000,000
General liability	0	1,000,000
Education liability:		
Per occurrence	0	2,000,000
Total per year	0	4,000,000

Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

**B. Fidelity Bond**

The Treasurer is covered under a surety bond in the amount of \$25,000.

**C. Workers' Compensation**

The School District pays the State Workers' Compensation System, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The School District is a member of the Sheakley Uniservice, Inc. Group Rating Program, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

**Note 15: Risk Management (Continued)**

***D. Employee Health Insurance***

Medical/surgical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool, consisting of seven school districts within the county, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$110,032 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in fund's claims liability for the fiscal years 2006 and 2005 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2006	<u>\$ 81,426</u>	<u>\$ 1,390,960</u>	<u>\$ 1,362,354</u>	<u>\$ 110,032</u>
2005	<u>\$ 122,681</u>	<u>\$ 1,415,097</u>	<u>\$ 1,456,352</u>	<u>\$ 81,426</u>

**Note 16: Interfund Balances and Transfers**

***A. Interfund Balances***

As of June 30, 2006, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

	<u>Receivable</u>	<u>Payable</u>
<b>Fund:</b>		
General	\$ 26,586	\$ 0
Other Governmental:		
Title VI-B	0	18,827
Eisenhower Grant	<u>0</u>	<u>7,759</u>
Totals	<u>\$ 26,586</u>	<u>\$ 26,586</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year June 30, 2006

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**Note 16: Interfund Balances and Transfers (Continued)**

***B. Interfund Transfers***

During fiscal year 2006, advances made in fiscal year 2005 that were not repaid were reclassified as transfers in the current year financial statements.

	<u>Transfers Out</u>	<u>Transfers In</u>
<b>Fund:</b>		
General	\$ 54,719	\$ 0
Other Governmental:		
Student Intervention	0	13,861
Title VI-B	0	30,108
Pre-School	0	750
Eisenhower Grant	0	10,000
Totals	\$ 54,719	\$ 54,719

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 17: Related Organizations**

The East Palestine Public Library (the “Library”) is a related organization to the School District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library’s operation, nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the School District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the School District during the fiscal year 2006.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 18: Jointly Governed Organizations**

***A. Area Cooperative Computerized Education Service System (ACCESS)***

ACCESS is a jointly governed organization comprised of 26 public school districts, 2 educational service centers, 20 non-public schools, and 2 special education regional resource centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The seven member board of governors consists of the two superintendents and one treasurer from each county (Columbiana and Mahoning). The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for ACCESS. The assembly exercises total control over operating of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing to: Mahoning County Educational Service Center, Treasurer's Office, 2801 Market Street, Room 202, Youngstown, Ohio 44507-1693. The continued existence of ACCESS is not dependent upon the School District's continued participation and no measurable equity interest exists. The School District paid \$37,040 for services provided during fiscal year 2006.

***B. Columbiana County Career Center***

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the School District's continued participation and no measurable equity interest exists.

The School District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

**Note 19: Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement 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 effect on the overall financial position of the School District at June 30, 2006.

***B. Litigation***

The School District is not party to any legal proceedings that would have a material effect on the financial statements or on the financial condition of the School District.

**East Palestine City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year June 30, 2006*

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**Note 20: Subsequent Events**

On October 31, 2006, the District entered into a 10 year Lease Purchase Agreement with All Points Public Funding, LLC for \$2,950,000 for the Stadium Project with an interest rate of 5.29%.

## **SUPPLEMENTAL DATA**

EAST PALESTINE CITY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
<b>Nutrition Cluster:</b>						
(A), (B) Food Donation	10.550	N/A	\$ -	\$ 37,191	\$ -	\$ 37,191
(A), (C) School Breakfast Program	10.553	043927-05PU-2005	10,786		10,786	
(A), (C) School Breakfast Program	10.553	043927-05PU-2006	41,240		41,240	
(A), (C) National School Lunch	10.555	043927-LL-P4-2005	53,981		53,981	
(A), (C) National School Lunch	10.555	043927-LL-P4-2006	164,184		164,184	
<b>Total U.S. Department of Agriculture and Nutrition Cluste</b>			<u>270,191</u>	<u>37,191</u>	<u>270,191</u>	<u>37,191</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
Title I - Grants to Local Educational Agencies	84.010	043927-C1-S1-2005	10,405		79,649	
Title I - Grants to Local Educational Agencies	84.010	043927-C1-S1-2006	340,574		338,053	
Title I - Grants to Local Educational Agencies	84.010	043927-C1-SN-2006	6,569		6,381	
<b>Total Title I</b>			<u>357,548</u>		<u>424,083</u>	
<b>Special Education Cluster:</b>						
(E) Special Education: Grants to States	84.027	043927-6B-SF-2005	41,143		7,252	
(E) Special Education: Grants to States	84.027	043927-6B-SF-2006	302,553		321,380	
<b>Total Special Education: Grants to States</b>			<u>343,696</u>		<u>328,631</u>	
(E) Special Education: Preschool Grants	84.173	043927-PGS1-2005	750		750	
(E) Special Education: Preschool Grants	84.173	043927-PGS1-2006	11,739		5,451	
<b>Total Special Education: Preschool Grants</b>			<u>12,489</u>		<u>6,201</u>	
<b>Total Special Education Cluster</b>			<u>356,185</u>		<u>334,832</u>	
Safe and Drug-Free Schools	84.186	043927-DR-S1-2005	486		-	
Safe and Drug-Free Schools	84.186	043927-DR-S1-2006	9,735		6,858	
<b>Total Safe and Drug-Free Schools</b>			<u>10,221</u>		<u>6,858</u>	
State Grants for Innovative Programs	84.298	043927-C2-S1-2006	4,010		4,010	
Technology Literacy Challenge Fund Grants	84.318	043927-TJ-S1-2004	-		438	
Technology Literacy Challenge Fund Grants	84.318	043927-TJ-S1-2005	-		515	
Technology Literacy Challenge Fund Grants	84.318	043927-TJ-S1-2006	6,109		4,309	
<b>Total Technology Literacy Challenge Fund Grants</b>			<u>6,109</u>		<u>5,262</u>	
Improving Teacher Quality State Grants	84.367	043927-TR-S1-2006	49,823		88,656	
<b>Total Improving Teacher Quality State Grants</b>			<u>49,823</u>		<u>88,656</u>	
<b>Total U.S. Department of Education</b>			<u>783,895</u>		<u>863,701</u>	
<b>Total Federal Financial Assistance</b>			<u>\$ 1,054,086</u>	<u>\$ 37,191</u>	<u>\$ 1,133,892</u>	<u>\$ 37,191</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) This schedule was prepared on the cash basis of accounting.
- (E) Included as part of "Special Education Cluster" in determining major programs.





**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Education  
East Palestine City School District  
200 West North Avenue  
East Palestine, Ohio 44413

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District as of and for the fiscal year ended June 30, 2006, which collectively comprise East Palestine City School District's (the "District") basic financial statements and have issued our report dated December 18, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud 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 certain matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated December 18, 2006.

Board of Education  
East Palestine City School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings as item 2006-EPCSD-001. We also noted other matters that we reported to management in a separate letter dated December 18, 2006.

This report is intended solely for the information and use of management and 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 cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 18, 2006



**Julian & Grube, Inc.**  
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Federal Program and Internal Control Over  
Compliance in Accordance With *OMB Circular A-133***

Board of Education  
East Palestine City School District  
200 West North Avenue  
East Palestine, Ohio 44413

Compliance

We have audited the compliance of the East Palestine City School District, Columbiana County, (the “District”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2006. The District’s major federal program is 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 its major federal program 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, *Audit 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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.

Board of Education  
East Palestine City School District

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

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's 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 solely for the information and use of the 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.



Julian & Grube, Inc.  
December 18, 2006

**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2006**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Title I Grants to Local Educational Agencies CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2006**

<b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2006-EPCSD-001
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Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that 43% of the expenditures tested were not certified in a timely manner.

Without proper certification the District may expend more funds than available in the treasury or in the process of collection, or than funds appropriated. It may also result in unnecessary or undesirable purchases.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The District should consider using "Then" and "Now" certificates where applicable.

Client response:

The Treasurer will attempt to use Then and Now certificates when applicable and issue purchase orders before invoices.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2006**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2005-EPCSD-001	Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Not Corrected, repeated as finding 2006-EPCSD-001.







**Mary Taylor, CPA**  
Auditor of State

**EAST PALESTINE 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  
JULY 17, 2007**