



**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the East Palestine City School District, Columbiana County, prepared by Canter & Associates, for the audit period July 1, 2010 through June 30, 2011. 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.

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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 29, 2012

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

East Palestine City School District
Columbiana County
200 West North Avenue
East Palestine, Ohio 44413

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the East Palestine City School District (the District), Columbiana County, Ohio, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, East Palestine City School District restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, be presented to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The federal awards receipts and expenditures schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

CANTER & ASSOCIATES

A handwritten signature in blue ink that reads "Canter & Assoc" with a stylized flourish at the end.

Poland, Ohio
January 31, 2012

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The management's discussion and analysis of the East Palestine City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- General Revenues accounted for \$10,513,721 in revenue or 78.63 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,857,219 or 21.37 percent of total revenues of \$13,370,940.
- Total program expenses were \$12,698,784.
- Net assets of governmental activities increased by \$672,156, which represents a 3.03 percent decrease from fiscal year 2010.
- Outstanding note and capital lease liability decreased from \$2,220,266 to \$1,810,398 primarily 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 the permanent improvement fund are by far the most significant funds.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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 2011?" 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.

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, food service operations 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 8. 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 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, 2011
(Unaudited)

The School District as a Whole (Continued)

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 fiscal years 2011 compared to 2010:

(Table 1)
Net Assets

	Governmental Activities 2011	Restated 2010
	<u>2011</u>	<u>2010</u>
Assets		
Current and Other Assets	\$ 5,498,677	\$ 5,098,857
Capital Assets	<u>23,404,738</u>	<u>24,177,574</u>
Total Assets	<u>28,903,415</u>	<u>29,276,431</u>
Liabilities		
Long-Term Liabilities	2,298,879	2,794,061
Other Liabilities	<u>3,728,110</u>	<u>4,278,100</u>
Total Liabilities	<u>6,026,989</u>	<u>7,072,161</u>
Net Assets		
Invested in Capital Assets Net of Debt	21,594,340	21,957,308
Restricted	1,587,930	1,103,091
Unrestricted (Deficit)	<u>(305,844)</u>	<u>(856,129)</u>
Total Net Assets	<u>\$ 22,876,426</u>	<u>\$ 22,204,270</u>

Total governmental assets decreased by \$373,016. The majority of the decrease is due to decreases in capital assets and taxes receivable. A decrease of \$772,836 in total capital assets reflects depreciation exceeding current year additions. The decrease in taxes receivable is due to the expiration of the tax levy related to the School District's building projects. At the same time, intergovernmental receivable increased due to a new federal grant that was awarded in fiscal year 2011. Total governmental liabilities decreased by \$1,045,172, the majority of which can be attributed to a decrease in claims payable, now that the School District is no longer self-insured. Long-term liabilities also decreased, primarily through principal payments on debt and capital leases.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The School District as a Whole (Continued)

Table 2 shows the changes in net assets for fiscal years 2011 and 2010. 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
	2011	2010*
<i>Revenues</i>		
<i>Program Revenues:</i>		
Charges for Services	\$ 724,093	\$ 690,863
Operating Grants	2,024,566	1,185,986
Capital Grants	108,560	119,673
<i>General Revenue:</i>		
Property Taxes	2,879,388	2,977,123
Grants and Entitlements	7,603,008	7,427,315
Other	31,325	25,314
<i>Total Revenues</i>	13,370,940	12,426,274
<i>Program Expenses</i>		
Instruction	7,155,327	6,843,137
Support Services	4,159,794	4,486,529
Operation of Non-Instructional	534,522	517,780
Extracurricular Activities	740,920	681,792
Interest and Fiscal Charges	108,221	125,969
<i>Total Expenses</i>	12,698,784	12,655,207
Increase (Decrease) in Net Assets	\$ 672,156	\$ (228,933)

* 2010 was not restated for changes in fund structure noted in Note 3. These activities are deemed insignificant and would not impact the entity-wide analysis.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(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 activities had total revenues of \$13,370,940 and expenses of \$12,698,784.

(Table 3)
Governmental Activities
Cost of Services

	2011	2010*	2011	2010*
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 7,155,327	\$ 6,843,137	\$ (5,082,102)	\$ (5,659,828)
Support Services:				
Pupil and Instructional Staff	877,430	1,034,843	(865,605)	(1,014,373)
Board of Education, Administration, Fiscal and Business	1,665,271	1,863,259	(1,617,704)	(1,793,439)
Operation and Maintenance of Plant	987,942	1,035,938	(981,125)	(1,029,271)
Pupil Transportation	629,151	552,489	(602,823)	(552,489)
Operation of Non-Instructional	534,522	517,780	(2,762)	9,549
Extracurricular Activities	740,920	681,792	(581,223)	(492,865)
Interest and Fiscal Charges	108,221	125,969	(108,221)	(125,969)
Total Expenses	<u>\$ 12,698,784</u>	<u>\$ 12,655,207</u>	<u>\$ (9,841,565)</u>	<u>\$ (10,658,685)</u>

* 2010 was not restated for changes in fund structure noted in Note 3. These activities are deemed insignificant and would not impact the entity-wide analysis.

Instruction and support services comprise 76.37 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 12.73 percent of governmental program expenses. Operation of non-instructional services, such as food service operations, comprises 4.21 percent of program expenses with extracurricular activities and interest and fiscal charges making up the remaining 6.69 percent.

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, 2011
(Unaudited)

The School District's Funds

Information about the School District's governmental funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues (including other financing sources) of \$13,312,195 and expenditures (including other financing uses) of \$12,524,382. The net change in fund balance for the fiscal year was an increase of \$859,813. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance	Restated Fund Balance	Increase	Percentage
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>(Decrease)</u>	<u>Change</u>
General	\$ 126,087	\$ (808,286)	\$ 934,373	115.60 %
Permanent Improvement	351,953	284,325	67,628	23.79 %
Other Governmental	<u>334,791</u>	<u>476,979</u>	<u>(142,188)</u>	<u>(29.81) %</u>
Total	<u>\$ 812,831</u>	<u>\$ (46,982)</u>	<u>\$ 859,813</u>	<u>109.58 %</u>

General Fund

The School District's general fund's fund balance increased by \$934,373, a 116 percent increase over fiscal year ending June 30, 2010. Total revenues and other financing sources for the general fund increased by \$698,149 from fiscal year 2010 amounts. The majority of this increase was due to an increase in tuition and fees, extracurricular and charges for services as well as a transfer in from the internal service fund. The expenditures and other financing uses in the general fund for fiscal year 2011 decreased by \$257,662 from the prior year primarily due to a reduction in instruction related expenditures.

Permanent Improvement Fund

There was a decrease in expenditures, primarily pupil transportation due the purchase of a new bus in the prior year. Overall, expenditures decreased by \$76,063 from fiscal year 2010 to 2011.

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 2011, 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.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

For the general fund, final budget basis revenue, including other financing sources, was \$9,988,366, which was \$453,819 over the original budget estimate of \$9,534,547. Of this \$453,819 increase, most was attributable to advances in of \$130,613 and an increase in taxes and intergovernmental revenue in the final budget figures. Actual revenue, including other financing sources, was \$10,198,009. This amount was higher than final budget basis revenue of \$9,988,366 by \$209,643.

Final appropriations, including other financing uses of \$10,146,942 were \$58,230 higher than the \$10,088,712 in the original budget. Actual expenditures, and other financing uses, were \$9,898,206 which was lower than final appropriations of \$10,146,942 by \$248,736. Actual expenditures for operation and maintenance of plant and administrative support services proved to be lower than what was anticipated in the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District had \$23,404,738 invested in land, land improvements, buildings and building improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2011 balances compared with 2010. More detailed information is presented in Note 8 of the notes to the basic financial statements.

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

	Governmental Activities	
	2011	2010
Land	\$ 475,814	\$ 475,814
Land Improvements	2,817,612	2,988,377
Buildings and Building Improvements	19,736,588	20,328,899
Furniture and Equipment	232,796	213,799
Vehicles	141,928	170,685
Totals	\$ 23,404,738	\$ 24,177,574

The \$772,836 decrease in capital assets was attributable to depreciation expense exceeding current year additions.

Set Asides

Ohio law requires school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks. For fiscal year 2011, this amounted to \$171.96 per pupil 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.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Debt

At June 30, 2011, the School District had \$1,810,398 in leases outstanding with \$291,709 of it due within one year. During fiscal year 2011, \$133,000 in notes was retired. See Note 10 for additional details. Table 5 summarizes long-term obligations outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2011	Governmental Activities 2010
Capital Lease	\$ 1,810,398	\$ 2,087,266
Bond Anticipation Notes	0	133,000
Totals	\$ 1,810,398	\$ 2,220,266

In fiscal year 2007, the School District entered into a lease agreement with All Points Public Funding LLC for the construction of a new stadium. As part of the agreement, All Points Public Funding LLC, as lessor, deposited \$2,950,000 in the project fund for the construction of the stadium. Amounts were paid to contractors at the discretion of the School District as the project progressed.

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 decreases. 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. Large donations of \$172,852, along with retirements, kept the School District off the ballot.

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.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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 rick.ellis@EPSchools.k12.oh.us.

East Palestine City School District

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Investments	\$ 1,644,351
Cash and Cash Equivalents In Segregated Accounts	254,931
Receivables:	
Taxes	3,043,038
Intergovernmental	556,357
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets (Net)	<u>22,928,924</u>
<i>Total Assets</i>	<u>28,903,415</u>
Liabilities	
Accounts Payable	27,249
Accrued Wages and Benefits	875,115
Matured Compensated Absences Payable	48,973
Intergovernmental Payable	235,269
Deferred Revenue	2,533,501
Accrued Interest Payable	8,003
Long Term Liabilities:	
Due Within One Year	330,056
Due In More Than One Year	<u>1,968,823</u>
<i>Total Liabilities</i>	<u>6,026,989</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	21,594,340
Restricted for:	
Capital Projects	696,286
Debt Service	43,301
Other Purposes	527,104
Set Asides	321,239
Unrestricted (Deficit)	<u>(305,844)</u>
<i>Total Net Assets</i>	<u>\$ 22,876,426</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 4,998,150	\$ 382,456	\$ 844,509	\$ 101,743	\$ (3,669,442)
Special	2,119,201	25,063	718,067	0	(1,376,071)
Vocational	37,976	0	1,387	0	(36,589)
Support Services:					
Pupils	568,305	0	0	0	(568,305)
Instructional Staff	309,125	0	11,825	0	(297,300)
Board of Education	31,423	0	0	0	(31,423)
Administration	686,762	0	47,567	0	(639,195)
Fiscal	274,985	0	0	0	(274,985)
Business	672,101	0	0	0	(672,101)
Operation and Maintenance of Plant	987,942	0	0	6,817	(981,125)
Pupil Transportation	629,151	0	26,328	0	(602,823)
Operation of Non-Instructional Services:					
Food Service Operations	505,627	163,230	363,481	0	21,084
Community Services	28,895	0	5,049	0	(23,846)
Extracurricular Activities	740,920	153,344	6,353	0	(581,223)
Interest and Fiscal Charges	108,221	0	0	0	(108,221)
Totals	12,698,784	724,093	2,024,566	108,560	(9,841,565)

General Revenues

Property Taxes Levied for:

General Purposes	2,217,106
Debt Service	106,576
Capital Outlay	512,514
Classroom Facilities Maintenance	43,192
Grants and Entitlements not Restricted to Specific Programs	7,603,008
Miscellaneous	31,325
Total General Revenues	10,513,721
Change in Net Assets	672,156
<i>Net Assets Beginning of Year (Restated, See Note 3)</i>	22,204,270
<i>Net Assets End of Year</i>	\$ 22,876,426

See accompanying notes to the basic financial statements.

East Palestine City School District

Balance Sheet

Governmental Funds

June 30, 2011

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 648,101	\$ 337,093	\$ 337,918	\$ 1,323,112
Cash and Cash Equivalents In Segregated Accounts	28,309	0	226,622	254,931
Receivables:				
Taxes	2,393,743	602,413	46,882	3,043,038
Intergovernmental	38,052	0	518,305	556,357
Interfund Receivable	115,000	0	0	115,000
Restricted Cash and Investments	321,239	0	0	321,239
<i>Total Assets</i>	<u>\$ 3,544,444</u>	<u>\$ 939,506</u>	<u>\$ 1,129,727</u>	<u>\$ 5,613,677</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 16,840	\$ 436	\$ 9,973	\$ 27,249
Accrued Wages and Benefits	752,173	0	122,942	875,115
Interfund Payable	0	0	115,000	115,000
Matured Compensated Absences Payable	48,973	0	0	48,973
Intergovernmental Payable	229,823	0	5,446	235,269
Deferred Revenue	2,370,548	587,117	541,575	3,499,240
<i>Total Liabilities</i>	<u>3,418,357</u>	<u>587,553</u>	<u>794,936</u>	<u>4,800,846</u>
Fund Balances				
Restricted	321,239	351,953	548,154	1,221,346
Unassigned	(195,152)	0	(213,363)	(408,515)
<i>Total Fund Balances</i>	<u>126,087</u>	<u>351,953</u>	<u>334,791</u>	<u>812,831</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,544,444</u>	<u>\$ 939,506</u>	<u>\$ 1,129,727</u>	<u>\$ 5,613,677</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, 2011

Total Governmental Fund Balances	\$	812,831
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,404,738
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 533,917	
Delinquent Property Taxes	431,822	965,739
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.		(8,003)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences	(488,481)	
Capital Lease Payable	(1,810,398)	(2,298,879)
<i>Net Assets of Governmental Activities</i>	\$	22,876,426

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, 2011

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,239,446	\$ 561,830	\$ 146,986	\$ 2,948,262
Intergovernmental	6,861,407	91,483	2,092,941	9,045,831
Interest	0	0	10,390	10,390
Tuition and Fees	346,602	0	0	346,602
Extracurricular Activities	48,067	0	105,277	153,344
Charges for Services	79,597	0	163,230	242,827
Contributions and Donations	177,421	0	11,322	188,743
Miscellaneous	30,465	0	860	31,325
<i>Total Revenues</i>	<u>9,783,005</u>	<u>653,313</u>	<u>2,531,006</u>	<u>12,967,324</u>
Expenditures				
Current:				
Instruction:				
Regular	3,773,919	93,919	751,108	4,618,946
Special	1,208,467	0	915,572	2,124,039
Vocational	37,976	0	0	37,976
Support Services:				
Pupils	568,976	0	1,392	570,368
Instructional Staff	286,277	10,616	10,629	307,522
Board of Education	26,506	0	0	26,506
Administration	641,118	0	47,631	688,749
Fiscal	250,805	14,424	8,437	273,666
Business	672,101	0	0	672,101
Operation and Maintenance of Plant	928,531	0	64,288	992,819
Pupil Transportation	579,701	0	25,706	605,407
Operation of Non-Instructional Services:				
Food Service Operations	0	0	501,773	501,773
Community Services	4,000	0	24,895	28,895
Extracurricular Activities	215,126	0	118,141	333,267
Capital Outlay	0	83,056	0	83,056
Debt Service:				
Principal Retirement	0	276,868	133,000	409,868
Interest and Fiscal Charges	0	106,802	3,259	110,061
<i>Total Expenditures</i>	<u>9,193,503</u>	<u>585,685</u>	<u>2,605,831</u>	<u>12,385,019</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>589,502</u>	<u>67,628</u>	<u>(74,825)</u>	<u>582,305</u>
Other Financing Sources (Uses)				
Transfers In	344,871	0	0	344,871
Transfers Out	0	0	(67,363)	(67,363)
<i>Total Financing Sources (Uses)</i>	<u>344,871</u>	<u>0</u>	<u>(67,363)</u>	<u>277,508</u>
<i>Net Change in Fund Balance</i>	934,373	67,628	(142,188)	859,813
<i>Fund Balance (Deficit) Beginning of Year</i> <i>(Restated, See Note 3)</i>	<u>(808,286)</u>	<u>284,325</u>	<u>476,979</u>	<u>(46,982)</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ 126,087</u>	<u>\$ 351,953</u>	<u>\$ 334,791</u>	<u>\$ 812,831</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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	859,813
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Asset Additions	\$ 59,144	
Current Year Depreciation	<u>(831,980)</u>	(772,836)

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

Intergovernmental	507,278	
Tuition	(18,680)	
Delinquent Property Taxes	<u>(68,874)</u>	419,724

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 Anticipation Note Principal	133,000	
Capital Lease Principal	<u>276,868</u>	409,868

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.

1,840

Compensated absences 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.

85,314

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.

(331,567)

Change in Net Assets of Governmental Activities

\$ 672,156

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, 2011*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 2,112,451	\$ 2,217,634	\$ 2,211,456	\$ (6,178)
Intergovernmental	6,724,666	6,910,256	6,861,407	(48,849)
Tuition and Fees	339,694	364,363	346,602	(17,761)
Customer Sales and Service	38,726	45,000	79,597	34,597
Contributions and Donations	189,048	195,000	192,892	(2,108)
Miscellaneous	29,962	25,500	30,571	5,071
<i>Total Revenues</i>	<u>9,434,547</u>	<u>9,757,753</u>	<u>9,722,525</u>	<u>(35,228)</u>
Expenditures				
Current				
Instruction:				
Regular	3,870,476	4,042,476	4,000,191	42,285
Special	1,402,892	1,413,692	1,283,329	130,363
Vocational	55,400	41,900	38,492	3,408
Support Services:				
Pupils	699,648	689,648	623,676	65,972
Instructional Staff	347,455	347,455	301,488	45,967
Board of Education	26,023	26,023	26,860	(837)
Administration	736,908	737,838	671,013	66,825
Fiscal	271,172	271,172	266,804	4,368
Business	495,150	495,150	672,101	(176,951)
Operation and Maintenance of Plant	1,302,649	1,200,649	1,084,246	116,403
Pupil Transportation	555,889	555,889	634,851	(78,962)
Operation of Non-Instructional Services:				
Community Services	4,500	4,500	2,500	2,000
Extracurricular Activities	195,550	195,550	177,655	17,895
<i>Total Expenditures</i>	<u>9,963,712</u>	<u>10,021,942</u>	<u>9,783,206</u>	<u>238,736</u>
Excess of Revenues Over (Under) Expenditures	<u>(529,165)</u>	<u>(264,189)</u>	<u>(60,681)</u>	<u>203,508</u>
Other Financing Sources (Uses)				
Transfers In	100,000	100,000	344,871	244,871
Transfers Out	(100,000)	(100,000)	0	100,000
Advances In	0	130,613	130,613	0
Advances Out	(25,000)	(25,000)	(115,000)	(90,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(25,000)</u>	<u>105,613</u>	<u>360,484</u>	<u>254,871</u>
<i>Net Change in Fund Balance</i>	<u>(554,165)</u>	<u>(158,576)</u>	<u>299,803</u>	<u>458,379</u>
<i>Fund Balance Beginning of Year</i>	<u>299,926</u>	<u>299,926</u>	<u>299,926</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>210,020</u>	<u>210,020</u>	<u>210,020</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ (44,219)</u>	<u>\$ 351,370</u>	<u>\$ 809,749</u>	<u>\$ 458,379</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, 2011

	Governmental Activities - Internal Service Fund
Operating Revenue	
Charges for Services	\$ 42,816
Operating Expenses	
Fringe Benefits	14,545
Purchased Services	3,254
Claims	81,533
<i>Total Operating Expenses</i>	99,332
<i>Operating Income (Loss)</i>	(56,516)
Non-Operating Revenue	
Interest	2,457
<i>Income (Loss) Before Operating Transfers</i>	(54,059)
Transfers out	(277,508)
<i>Net Change in Net Assets</i>	(331,567)
<i>Net Assets Beginning of Year</i>	331,567
<i>Net Assets End of Year</i>	\$ 0

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, 2011

	Governmental Activities - Internal Service Fund
<hr style="border-top: 3px double #000;"/>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 401,356
Cash Paid for Goods and Services	(55,299)
Cash Paid for Claims	(209,458)
	<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>136,599</i>
	<hr/>
Cash Flows from Noncapital Financing Activities	
Transfers Out	(277,508)
	<hr/>
Cash Flows From Investing Activities	
Interest on Investments	2,457
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>138,452</i>
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$ 0</i>
	<hr style="border-top: 3px double #000;"/>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities	
Operating Income (Loss)	\$ (56,516)
Adjustments:	
Decrease in Interfund Receivable	358,540
Decrease in Claims Payable	(127,925)
Decrease in Accounts Payable	(37,500)
	<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>\$ 136,599</i>
	<hr style="border-top: 3px double #000;"/>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and Cash Equivalents in Segregated Accounts	\$ 0	\$ 31,892
Investments in Segregated Accounts	73,840	0
<i>Total Assets</i>	73,840	\$ 31,892
 Liabilities		
Accounts Payable	0	\$ 1,175
Due to Students	0	30,717
<i>Total Liabilities</i>	0	\$ 31,892
 Net Assets		
Held in Trust for Scholarships	\$ 73,840	

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Contributions	\$ 4,800
Interest	304
<i>Total Additions</i>	5,104
Deductions	
Payments in Accordance with Trust Agreements	42,673
Change in Net Assets	(37,569)
<i>Net Assets Beginning of Year (Restated, See Note 3)</i>	111,409
<i>Net Assets End of Year</i>	\$ 73,840

See accompanying notes to the basic financial statements.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

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, 2010, was 1,270. The School District employs 85 certificated and 39 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 School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For 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 the Area Cooperative Computerized Educational Service System (ACCESS), Columbiana County Career Center and the Portage Area School Consortium Health and Welfare Insurance Pool, 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) 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 its internal service funds provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The more significant of the School District's accounting policies are shown below.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

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, 2011

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.

Permanent Improvement Fund The permanent improvement fund accounts for all transactions relating to the acquiring, constructing or improving of permanent improvements.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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. The School District is no longer self-insured. The Internal Service fund was closed during fiscal year 2011.

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. The School District's trust funds include private purpose trust funds which account for scholarship programs for the students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

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.

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and statements for the fiduciary funds 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 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

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, 2011, but which were levied to finance fiscal year 2012 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 Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds (except for cash with fiscal agent), 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 investments" on the balance sheet.

During fiscal year 2011, investments were limited to certificates of deposit, overnight repurchase agreement, Federal Home Loan Mortgage Corporation notes, and Federal National Mortgage Association discount notes. At June 30, 2011, the School District's only investments were certificates of deposits and an overnight repurchase agreement.

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. Interest revenue credited to the Stadium Project Fund during fiscal year 2011 amounted to \$10,260, which includes \$9,870 assigned from other funds. Total interest revenue earned in governmental funds in fiscal year 2011 amounted to \$10,390.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as "equity in pooled cash and investments." Investments with an original maturity of more than three months that are not made from the pool are reported as "investments."

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

F. 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. See Note 15 for additional information regarding set asides.

G. 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
Land Improvements	20 Years
Buildings and Building Improvements	20 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	8 Years

H. 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.

I. 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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

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.

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

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

J. 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 proprietary 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 judgements 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 anticipation notes and capital leases are recognized as a liability on the fund financial statements when due.

K. 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. At June 30, 2011, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities grants and extracurricular activities.

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

L. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. 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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds 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.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2011.

P. 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.

Q. 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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

R. Changes in Accounting Principles

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*” and GASB Statement No. 59, “*Financial Instruments Omnibus*.”

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

Note 3: Restatement of Fund Balances and Net Assets

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54. These fund reclassifications had the following effect on the School District’s governmental fund balances as previously reported:

	General	Nonmajor Governmental
Fund Balance Previously Reported at June 30, 2010	\$ (828,876)	\$ 608,978
Fund Reclassification:		
Adult Education	3,093	(3,093)
Public School Support Fund	17,497	(17,497)
Private Purpose Trust Funds		(17,044)
Endowments	0	(94,365)
Restated Fund Balance at July 1, 2010	\$ (808,286)	\$ 476,979

The fund reclassifications had the following effect on the School District’s net assets as previously reported:

	Governmental Activities	Private Purpose Trust Funds
Net Assets, Previously Reported at June 30, 2010	\$ 22,315,679	\$ 0
Fund Reclassification:		
Endowments	(94,365)	94,365
Private Purpose Trust Funds	(17,044)	17,044
Restated Net Assets at July 1, 2010	\$ 22,204,270	\$ 111,409

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 4: 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).
5. Some funds are included in the general fund, (GAAP basis), but have separate legally adopted budgets (budget basis).

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	\$ 934,373
Net Adjustment for Revenue Accruals	(12,413)
Advances In	130,613
Net Adjustment for Expenditure Accruals	(470,521)
Advances Out	(115,000)
Fund Budgeted Elsewhere*	(10,753)
Encumbrances	(156,496)
Budgetary Basis	\$ 299,803

** As part of Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” certain funds that are legally budgeted in separate special revenue funds is considered part of the general fund on a GAAP basis. This includes public school support and the adult education funds.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 5: Fund Deficits

Fund balances at June 30, 2011 included the following individual fund deficits:

	<u>Deficit</u>
Other Governmental Funds:	
Title VIB	\$ 54,601
State Fiscal Stabilization	35,482
Title I	103,563
Title VIR	19,717

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

Note 6: Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 6: Deposits and Investments (Continued)

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;
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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 6: Deposits and Investments (Continued)

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 uninsured 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 uninsured 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 fiscal year 2011, the School District and public depositories complied with the provisions of these statutes.

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 School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$1,879,911. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2011, \$1,213,679 of the School District's bank balance of \$1,909,115 was exposed to custodial risk as discussed above. \$695,436 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2011, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
Repurchase Agreement	<u>\$ 125,103</u>	<u>\$ 125,103</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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 6: Deposits and Investments (Continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the School 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. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The School District has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk. The School District’s investments in the federal agency securities that underlie the School District’s repurchase agreement were Aaa by Moody’s Investor Services. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The School District places no limit on the amount 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, 2011:

Investment Type	Fair Value	Percent of Total
Repurchase Agreement	\$ 125,103	100.00%

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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 7: Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2011 represents collections of calendar 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State Law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 7: Property Taxes (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At June 30, 2011, \$61,247 was available as an advance to the general fund, \$15,296 to the permanent improvement fund and \$1,172 to the classroom facilities maintenance fund. There were no advances available to the bond retirement fund as the bond levy has expired. At June 30, 2010, \$33,257 was available as an advance to the general fund, \$3,692 to the bond retirement fund, \$8,446 to the permanent improvement fund and \$641 to the classroom facilities maintenance fund.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010		2011	
	Second-Half Collections		First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and other real estate	\$ 102,957,930	83%	\$ 101,753,790	84%
Commercial Industrial	12,951,090	10%	13,964,410	11%
Tangible Personal Property	<u>8,786,370</u>	<u>7%</u>	<u>6,051,890</u>	<u>5%</u>
Total Assessed Value	<u>\$ 124,695,390</u>	<u>100%</u>	<u>\$ 121,770,090</u>	<u>100%</u>
Tax rate per \$1,000 of assessed value		<u>\$ 29.03</u>		<u>\$ 26.80</u>

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 8: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2011 was as follows:

	Balance 06/30/2010	Additions	Reductions	Balance 06/30/2011
Governmental Activities:				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
 <i>Capital Assets, Being Depreciated:</i>				
Land Improvements	3,584,787	0	0	3,584,787
Building and Building Improvements	26,446,548	0	0	26,446,548
Furniture and Equipment	658,035	59,144	0	717,179
Vehicles	827,908	0	(11,479)	816,429
<i>Total Capital Assets, Being Depreciated</i>	31,517,278	59,144	(11,479)	31,564,943
 <i>Less Accumulated Depreciation:</i>				
Land Improvements	(596,410)	(170,765)	0	(767,175)
Building and Building Improvements	(6,117,649)	(592,311)	0	(6,709,960)
Furniture and Equipment	(444,236)	(40,147)	0	(484,383)
Vehicles	(657,223)	(28,757)	11,479	(674,501)
<i>Total Accumulated Depreciation</i>	(7,815,518)	(831,980) *	11,479	(8,636,019)
<i>Total Capital Assets Being Depreciated, Net</i>	23,701,760	(772,836)	0	22,928,924
 <i>Governmental Activities Capital Assets, Net</i>	\$ 24,177,574	\$ (772,836)	\$ 0	\$ 23,404,738

*Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	387,749
Support Services:		
Instructional Staff		9,841
Board of Education		4,780
Operation and Maintenance		4,027
Pupil Transportation		26,267
Operation of Non-Instructional Services		3,746
Extracurricular Activities		395,570
		395,570
 Total Depreciation Expense	\$	831,980

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 9: Receivables

Receivables at June 30, 2011, consisted of taxes, interfund and intergovernmental (grants and State Employees Retirement System refund). 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 10: Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year 2011 were as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due in One Year
Various Purpose Improvement Notes, 2.45% interest rate, maturing April 2011	\$ 133,000	\$ 0	\$ (133,000)	\$ 0	\$ 0
Capital lease payable	2,087,266	0	(276,868)	1,810,398	291,709
Compensated absences payable	573,795	5,327	(90,641)	488,481	38,347
Total long-term obligations	\$ 2,794,061	\$ 5,327	\$ (500,509)	\$ 2,298,879	\$ 330,056

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

Compensated absences will be paid from the general fund. Capital leases will be paid from the permanent improvement fund.

Note 11: Capitalized Leases – Lessee Disclosure

During fiscal year 2007, the School District entered into a lease agreement with the All Points Public Funding LLC for the construction of a new stadium. At the time the School District entered into this lease, the stadium had not yet been constructed. As part of the agreement, All Points Public Funding LLC, as lessor, deposited \$2,950,000 in the project fund for the construction of the stadium. Amounts were paid to contractors at the discretion of the School District as the project progressed. The capital assets which were constructed under this lease have been capitalized in the amount of \$2,950,000. The interest rate on the capital lease is 5.29 percent.

The lease meets the criteria of a capital lease as it transfers benefits and risks of ownership to the lessee.

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. The first principal payment was made in fiscal year 2007.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 11: Capitalized Leases – Lessee Disclosure (Continued)

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, 2011:

Year ending June 30,	2012		\$ 383,671
	2013		383,671
	2014		383,671
	2015		383,671
	2016		383,671
	2017		191,837
			2,110,192
Less: amount representing interest			299,794
Present value of minimum lease payments			\$ 1,810,398

Note 12: Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 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 by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were 161,318, \$212,850 and \$124,571, respectively; 46 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 12: Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were 541,495, \$614,209 and \$635,982; 84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$30,021 made by the School District and \$21,443 made by the plan members.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 12: Defined Benefit Pension Plans (Continued)

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, 2011, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 13: Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$38,213, \$26,341 and \$81,165, respectively; 46 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$10,381, \$12,658 and \$10,278, respectively; 46 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 13: Postemployment Benefits (Continued)

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$41,653, \$47,247 and \$48,922, respectively; 84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 14: 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, 2011

Note 15: 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. Disclosure of this information is required by State statute.

	Textbook Reserve	Capital Acquisition
Set-Aside Balance as of June 30, 2010	\$ 225,360	\$ 0
Current Year Set-Aside Requirement	196,848	196,848
Contributions in Excess of the Current Fiscal Year Set-Aside Requirement	0	0
Current Year Qualifying Disbursements	(100,969)	0
Excess Qualified Expenditures from Prior Years	0	0
Current Year Offset Credits	0	(141,539)
Waiver Granted by the Department of Education Prior Year Offset from Bond Proceeds	0	(55,309)
Total	\$ 321,239	\$ 0
Balance Carried Forward to Future Fiscal Years	\$ 321,239	\$ 0
Set-Aside Reserve Balance As of June 30, 2011	\$ 321,239	\$ 0

The School District did not have enough qualifying disbursements to exceed the requirements for textbooks and other instructional materials and is required to establish a reserved fund balance of \$321,239. This amount is also reported as restricted cash and cash equivalents in the general fund.

Effective July 1, 2011, textbook set-aside laws have been repealed.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 16: 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 2011, 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	\$ 42,998,811
Boiler and machinery – blanket limit	500	5,000,000
Crime insurance	500	25,000
Automobile liability	0	1,000,000
Uninsured motorists	0	1,000,000
General liability	0	1,000,000
Education liability:		
Per occurrence	0	1,000,000
Total per year	0	2,000,000
School Board Errors and Omissions		1,000,000
Umbrella	0	3,000,000

Settlements have not exceeded coverage in any of the last three fiscal years. There has been no significant reduction in insurance 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 Comp Management, 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, 2011

Note 16: Risk Management (Continued)

D. Employee Health Insurance

For fiscal year 2009 and prior, medical, surgical and dental insurance was offered to all employees through a self-insurance internal service fund. The School District was a member of the Ohio Mid-Eastern Regional Education Service Agency Health Benefit Plan (OME-RESA), a public entity risk management, insurance, and claims servicing pool, consisting of school districts within the region, 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 \$127,925 reported in the internal service fund at June 30, 2010, was based on an estimate and the requirements of Governmental Accounting Standards Board Statement No. 30 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 2011 and 2010 are as follows:

	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2011	\$ 127,925	\$ 81,533	\$ 209,458	\$ 0
2010	\$ 149,858	\$ 1,235,826	\$ 1,257,759	\$ 127,925

Beginning July 1, 2010, the School District is a member of the Portage Area School Consortium Health and Welfare Insurance Pool (the Consortium), a shared risk pool, through which a cooperative Health Benefit Program was created for the benefit of its members. The Health Benefit Program is an employee health benefit plan which covers the participating members' employees. The Consortium acts as a fiscal agent for the cash funds paid into the program by the participating School Districts. These funds are pooled together for the purposes of paying health benefit claims of employees and their covered dependents, administrative expenses of the program and premiums for stop-loss insurance coverage. A reserve exists which is to cover any unpaid claims if the School District were to withdraw from the pool. If the reserve would not cover such claims, the School District would be liable for any costs above the reserve.

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 2011.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 17: Related Organizations (Continued)

The East Palestine City School District Education Foundation is also associated with the School District. The Foundation was formed in April of 2002 and is operated exclusively for charitable and educational purposes, to wit, for the purpose of making scholarships and improvements to the School District. The Foundation is a tax exempt trust as determined by 501(C)(3) of the Internal Revenue Code. The Foundation operates under an eleven member Board, consisting of the Superintendent and Treasurer of the School District as non-voting members, and nine persons residing or doing business within the District. Financial information on the Foundation can be obtained by contacting Rick Ellis, Treasurer, East Palestine School District, 200 West North Avenue, East Palestine, Ohio 44413.

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 \$25,465 for services provided during fiscal year 2011.

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.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

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 are 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, 2011.

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.

Note 20: Interfund Activity

A. Interfund Balances

Interfund balances at June 30, 2011 consist of the following:

	Interfund Receivables	Interfund Payables
General Fund	\$ 115,000	\$ 0
Title VI-B	0	35,000
Title II-D ARRA Tech Grant	0	25,000
Title I	0	47,000
Title II-A	0	8,000
Total	\$ 115,000	\$ 115,000

The primary purpose of the interfund balances in the governmental funds is to cover costs in specific funds where revenues were not received by June 30. These interfund balances are expected to be repaid in fiscal year 2012 once the anticipated revenues are received.

B. Interfund Transfers

The bond retirement fund transferred \$67,363, the remaining fund balance, to the general fund. The internal service fund transferred the remaining balance of \$277,508 to the general fund.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2011

Note 21: Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for:				
Textbooks	\$ 321,239	\$ 0	\$ 0	\$ 321,239
Capital Projects	0	351,953	310,351	662,304
Other Purposes	0	0	237,803	237,803
Total Restricted	<u>321,239</u>	<u>351,953</u>	<u>548,154</u>	<u>1,221,346</u>
Unassigned	(195,152)	0	(213,363)	(408,515)
<i>Total Fund Balance (Deficit)</i>	<u>\$ 126,087</u>	<u>\$ 351,953</u>	<u>\$ 334,791</u>	<u>\$ 812,831</u>

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	FY 2011	10.555	\$27,332	\$27,332
Cash Assistance:				
National School Lunch Program	FY 2011	10.555	275,955	275,955
Total - National School Lunch Program			303,287	303,287
National School Breakfast Program	FY 2011	10.553	55,031	55,031
Total - Nutrition Cluster			358,318	358,318
Total U.S. Department of Agriculture			358,318	358,318
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to State (IDEA Part B)	FY 2011	84.027	252,905	279,793
ARRA - IDEA Part B	FY 2010	84.391	57,937	57,937
ARRA - IDEA Part B	FY 2011	84.391	132,822	140,033
Total Special Education Cluster			443,664	477,763
Title I Grants to Local Educational Agencies Cluster:				
Title I Grants to Local Educational Agencies	FY 2010	84.010	105,512	42,227
Title I Grants to Local Educational Agencies	FY 2011	84.010	258,707	319,228
ARRA Title I Grants to Local Educational Agencies	FY 2010	84.389	13,946	11,950
ARRA Title I Grants to Local Educational Agencies	FY 2011	84.389	83,615	91,501
Total Title I Grants to Local Educational Agencies Cluster			461,780	464,906
School Renovation IDEA and Technology	n/a	84.352		103
Improving Teacher Quality State Grants	FY 2010	84.367	5,515	200
Improving Teacher Quality State Grants	FY 2011	84.367	72,643	79,716
Total Improving Teacher Quality State Grants			78,158	79,916
ARRA State Fiscal Stabilization Fund	FY 2010	84.394		4,032
ARRA State Fiscal Stabilization Fund	FY 2011	84.394	545,029	545,029
Total State Fiscal Stabilization Fund - ARRA			545,029	549,061
Title IID Education Technology	FY 2010	84.318	4,249	4,327
Title IID Education Technology	FY 2011	84.318	1,274	1,274
ARRA Title IID Education Technology	FY 2011	84.386	203,064	224,628
Total Title IID Education Technology			208,587	230,229
Total U.S. Department of Education			1,737,218	1,801,978
Total			\$2,095,536	\$2,160,296

The accompanying notes are an integral part of this schedule.

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the District's federal award program's receipts and disbursements. The Schedule has been prepared on a cash basis of accounting.

NOTE B- CHILD NUTRITION CLUSTER

The District commingles cash receipts from U.S. Department of Agriculture with similar State Grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATED PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' 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

East Palestine City School District
Columbiana County
200 West North Avenue
East Palestine, Ohio 44413

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District (the District), Columbiana County, Ohio as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2012, in which we noted the District implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 31, 2012.

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



CANTER & ASSOCIATES
Poland, Ohio

January 31, 2012



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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

East Palestine City School District
Columbiana County
200 West North Avenue
East Palestine, Ohio 44413

To the Board of Education:

Compliance

We have audited the compliance of the East Palestine City School District (the District), Columbiana County, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could directly and materially affect each of East Palestine City School District's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the East Palestine City School District, Columbiana County, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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



CANTER & ASSOCIATES

Poland, Ohio

January 31, 2012

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
YEAR ENDED JUNE 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS
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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 weaknesses reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	UNQUALIFIED
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	1- Title I Cluster– 84.010 / 84.389 2- ARRA State Fiscal Stabilization Fund – 84.394 3- Special Education Cluster – 84.027/84.391
<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?	NO

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

NONE

3. FINDINGS FOR FEDERAL AWARDS

NONE



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CERTIFIED PUBLIC ACCOUNTANTS

WWW.CANTERCPA.NET

Independent Accountants' Report on Applying Agreed-Upon Procedures

East Palestine City School District
Columbiana County
200 West North Avenue
East Palestine, Ohio 44413

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether East Palestine City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of this procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy on November 1, 2010 to include violence within a dating relationship within the definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Canter and Associates
Poland, Ohio

January 31, 2012



Dave Yost • 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
APRIL 10, 2012**