



Dave Yost • Auditor of State



**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Palestine City School District, Columbiana County, Ohio (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Palestine City School District, Columbiana County, Ohio, as of June 30, 2013, and the respective changes in financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

#### *Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the 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 schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 15, 2014

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**East Palestine City School District**  
**Columbiana County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*  
*(Unaudited)*

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The 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, 2013. 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 2013 are as follows:

- Net position decreased \$90,279, which represents a .4 percent decrease from 2012.
- Capital assets decreased \$790,966 during fiscal year 2013.
- During the year, outstanding capital lease payable decreased from \$1,518,689 to \$1,211,345 due to principal payments made by the School District

***Using this Annual 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 a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position 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 permanent improvement fund are by far the most significant funds.

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

***Statement of Net Position and the Statement of Activities***

While the basic financial statements contain 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 2013?" The *Statement of Net Position* 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 has taken into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**East Palestine City School District**  
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These two statements report the School District's net position and changes in net position. This change in net position 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 Position* and the *Statement of Activities*, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, i.e., food service operations.

***Reporting the School District's Most Significant Funds***

***Fund Financial Statements***

The major funds financial statements begin on page 15. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 20 and 21. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**East Palestine City School District**  
**Columbiana County, Ohio**  
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*(Unaudited)*

**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012:

**Table 1**  
**Net Position**

	Governmental Activities	
	2013	2012
<b>Assets</b>		
Current and Other Assets	\$ 5,677,054	\$ 5,335,021
Capital Assets	21,924,264	22,715,230
<i>Total Assets</i>	27,601,318	28,050,251
<b>Liabilities</b>		
Other Liabilities	3,661,310	3,635,844
Long-Term Liabilities	1,554,558	1,938,678
<i>Total Liabilities</i>	5,215,868	5,574,522
<b>Net Position</b>		
Net Investment in Capital Assets	20,712,919	21,196,541
Restricted	1,210,273	984,849
Unrestricted	462,258	294,339
<i>Total Net Position</i>	\$ 22,385,450	\$ 22,475,729

Current and other assets increased \$342,033, primarily due to an increase in cash balances as the School District continues to strive for a reduction in expenses.

At year end, capital assets represented 79 percent of total assets. Capital assets include, land and land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets was \$20,712,919 at June 30, 2013. The \$790,966 decrease in capital assets was attributable to current year depreciation exceeding additional purchases. These capital assets are used to provide services to students and are not available for future spending. Although the School District's net investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Long-term liabilities decreased by \$384,120 primarily due to principal payments made by the School District.

A portion of the School District's net position, \$1,210,273 or 5.4 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$462,258 may be used to meet the government's ongoing obligations to students and creditors.

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Table 2 shows the changes in net position for fiscal year 2013 and 2012.

**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2013	2012
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 785,162	\$ 764,420
Operating Grants	1,098,347	1,070,071
Capital Grants	14,526	6,856
<i>Total Program Revenues</i>	<u>1,898,035</u>	<u>1,841,347</u>
<i>General Revenues:</i>		
Property Taxes	2,761,121	2,804,148
Grants and Entitlements Not Restricted	7,386,789	7,234,159
Other	51,743	66,300
<i>Total General Revenues</i>	<u>10,199,653</u>	<u>10,104,607</u>
<i>Total Revenues</i>	<u>12,097,688</u>	<u>11,945,954</u>
<b>Program Expenses</b>		
Instruction:		
Regular	4,361,210	4,528,453
Special	2,102,406	2,038,504
Vocational	40,855	36,692
Support Services:		
Pupils	578,844	605,687
Instructional Staff	258,024	377,530
Board of Education	19,496	28,488
Administration	737,401	681,624
Fiscal	265,128	264,452
Business	831,682	726,905
Operation and Maintenance of Plant	1,058,904	1,008,071
Pupil Transportation	589,793	749,177
Operation of Non-Instructional Services:		
Food Service Operations	535,550	497,116
Community Services	1,000	1,500
Extracurricular Activities	733,757	705,103
Debt Service:		
Interest and Fiscal Charges	73,917	97,349
<i>Total Expenses</i>	<u>12,187,967</u>	<u>12,346,651</u>
<i>Change in Net Position</i>	(90,279)	(400,697)
<i>Net Position at Beginning of Year</i>	<u>22,475,729</u>	<u>22,876,426</u>
<i>Net Position at End of Year</i>	<u>\$ 22,385,450</u>	<u>\$ 22,475,729</u>

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Unrestricted grants and entitlements increased slightly due to increased foundation receipts.

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.

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2013	2012	2013	2012
Instruction:				
Regular	\$ 4,361,210	\$ 4,528,453	\$ 3,834,039	\$ 3,964,663
Special	2,102,406	2,038,504	1,514,003	1,520,922
Vocational	40,855	36,692	39,468	35,303
Support Services:				
Pupils	578,844	605,687	578,844	605,687
Instructional Staff	258,024	377,530	252,624	372,130
Board of Education	19,496	28,488	19,496	28,488
Administration	737,401	681,624	696,104	641,159
Fiscal	265,128	264,452	265,128	264,452
Business	831,682	726,905	831,682	726,905
Operation and Maintenance of Plant	1,058,904	1,008,071	1,051,934	1,001,215
Pupil Transportation	589,793	749,177	569,202	727,070
Operation of Non-Instructional Services:				
Food Service Operations	535,550	497,116	(2,270)	(43,743)
Community Services	1,000	1,500	1,000	1,500
Extracurricular Activities	733,757	705,103	564,761	562,204
Debt Service:				
Interest and Fiscal Charges	73,917	97,349	73,917	97,349
<i>Total Expenses</i>	<u>\$ 12,187,967</u>	<u>\$ 12,346,651</u>	<u>\$ 10,289,932</u>	<u>\$ 10,505,304</u>

The dependence upon general revenues for governmental activities is apparent. Over 83 percent of governmental activities are supported through taxes and other general revenues. Total general revenue for fiscal year 2013 was \$10,199,653, or 84 percent of total revenue. The community, as a whole, is by far the primary support for the School District students.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*  
*(Unaudited)*

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***Governmental Funds***

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,099,452 and expenditures of \$11,790,982 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2013 was an increase of \$109,367. Intergovernmental revenue increased from \$7,142,946 in fiscal year 2012 to \$7,293,143 in fiscal year 2013, as the School District received more state foundation revenue.

In the general fund total expenditures in the amount of \$9,969,001 for fiscal year 2013 were higher than the total of \$9,651,214 in fiscal year 2012. Increases can be seen primarily in the area of instruction which increased by \$209,153 over fiscal year 2012 levels.

The fund balance of the permanent improvement fund increased \$133,176. Total expenditures for the permanent improvement fund were \$226,735 lower in fiscal year 2013 as compared to fiscal year 2012. The decrease was primarily due to the timing of tax collections so capital outlays were lower.

***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 2013, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue of \$9,989,746 was \$14,655 higher than the final budget basis revenue of \$9,975,091.

Final expenditure appropriations of \$11,106,160 were \$1,146,190 higher than the actual expenditures of \$9,959,970, as cost savings were recognized for instruction and student support services throughout the year.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*  
*(Unaudited)*

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2013, the School District had \$21,924,264 invested in capital assets. Table 4 shows fiscal year 2013 balances compared with 2012.

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

	Governmental Activities	
	2013	2012
Land	\$ 475,814	\$ 475,814
Land Improvements	2,476,083	2,646,848
Buildings and Building Improvements	18,573,157	19,151,341
Furniture and Equipment	227,138	232,546
Vehicles	172,072	208,681
<i>Totals</i>	\$ 21,924,264	\$ 22,715,230

The \$790,966 decrease in capital assets was attributable to current year depreciation exceeding additional purchases. See Note 7 for more information about the capital assets of the School District.

**Debt**

At June 30, 2013, the School District had \$1,211,345 in capital lease payable outstanding. See Notes 9 and 10 for additional details. Table 5 summarizes capital lease outstanding.

**(Table 5)**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2013	2012
Capital lease payable	\$ 1,211,345	\$ 1,518,689

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*  
*(Unaudited)*

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***Current Issues***

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

Real estate and personal property tax collections have shown small 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. More staff retirements have helped the bottom line since all were replaced with staff member having little or no experience.

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

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

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

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

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

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rick Ellis, Treasurer of East Palestine City School District, 200 W. North Avenue, East Palestine, Ohio 44413 or [rick.ellis@EPSchools.k12.oh.us](mailto:rick.ellis@EPSchools.k12.oh.us).



**East Palestine City School District**  
**Columbiana County, Ohio**  
*Statement of Net Position*  
*June 30, 2013*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 2,132,215
Cash and Cash Equivalents in Segregated Accounts	291,675
Receivables:	
Intergovernmental	224,238
Property Taxes	3,028,926
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets (Net)	21,448,450
<i>Total Assets</i>	27,601,318
<b>Liabilities</b>	
Accounts Payable	47,806
Accrued Wages and Benefits	803,837
Intergovernmental Payable	224,791
Matured Compensated Absences Payable	29,997
Accrued Interest Payable	10,680
Deferred Revenue	2,544,199
Long Term Liabilities:	
Due Within One Year	351,023
Due In More Than One Year	1,203,535
<i>Total Liabilities</i>	5,215,868
<b>Net Position</b>	
Net Investment in Capital Assets	20,712,919
Restricted For:	
Capital Outlay	735,526
Debt Service	43,301
Other Purposes	431,446
Unrestricted	462,258
<i>Total Net Position</i>	\$ 22,385,450

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 4,361,210	\$ 445,819	\$ 73,796	\$ 7,556	\$ (3,834,039)
Special	2,102,406	19,099	569,304	0	(1,514,003)
Vocational	40,855	0	1,387	0	(39,468)
Support Services:					
Pupils	578,844	0	0	0	(578,844)
Instructional Staff	258,024	0	5,400	0	(252,624)
Board of Education	19,496	0	0	0	(19,496)
Administration	737,401	0	41,297	0	(696,104)
Fiscal	265,128	0	0	0	(265,128)
Business	831,682	0	0	0	(831,682)
Operation and Maintenance of Plant	1,058,904	0	0	6,970	(1,051,934)
Pupil Transportation	589,793	0	20,591	0	(569,202)
Operation of Non-Instructional Services:					
Food Service Operations	535,550	159,135	378,685	0	2,270
Community Services	1,000	0	0	0	(1,000)
Extracurricular Activities	733,757	161,109	7,887	0	(564,761)
Debt Service:					
Interest and Fiscal Charges	73,917	0	0	0	(73,917)
<b>Total</b>	<b>\$ 12,187,967</b>	<b>\$ 785,162</b>	<b>\$ 1,098,347</b>	<b>\$ 14,526</b>	<b>(10,289,932)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	2,177,255
Capital Outlay	541,437
Other Purposes	42,429
Grants and Entitlements Not Restricted to Specific Programs	7,386,789
Investment Earnings	(4,088)
Miscellaneous	55,831

*Total General Revenues*

10,199,653

*Change in Net Position*

(90,279)

*Net Position Beginning of Year*

22,475,729

*Net Position End of Year*

\$ 22,385,450

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2013*

	General	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 1,382,621	\$ 383,424	\$ 366,170	\$ 2,132,215
Cash and Cash Equivalents in Segregated Accounts	20,652	0	271,023	291,675
Receivables:				
Interfund	4,146	0	0	4,146
Intergovernmental	55,196	0	169,042	224,238
Property Taxes	2,387,898	594,256	46,772	3,028,926
<i>Total Assets</i>	<u>\$ 3,850,513</u>	<u>\$ 977,680</u>	<u>\$ 853,007</u>	<u>\$ 5,681,200</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 39,641	\$ 7,100	\$ 1,065	\$ 47,806
Accrued Wages and Benefits	747,293	0	56,544	803,837
Intergovernmental Payable	221,884	0	2,907	224,791
Matured Compensated Absences Payable	29,997	0	0	29,997
Interfund Payable	0	0	4,146	4,146
Deferred Revenue	2,354,902	577,157	154,358	3,086,417
<i>Total Liabilities</i>	<u>3,393,717</u>	<u>584,257</u>	<u>219,020</u>	<u>4,196,994</u>
<b>Fund Balances</b>				
Restricted	0	393,423	645,155	1,038,578
Assigned	434,904	0	0	434,904
Unassigned	21,892	0	(11,168)	10,724
<i>Total Fund Balances</i>	<u>456,796</u>	<u>393,423</u>	<u>633,987</u>	<u>1,484,206</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,850,513</u>	<u>\$ 977,680</u>	<u>\$ 853,007</u>	<u>\$ 5,681,200</u>

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2013*

<b>Total Governmental Fund Balances</b>		\$ 1,484,206
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,924,264
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 397,674	
Intergovernmental	<u>144,544</u>	
Total		542,218
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is not reported.		(10,680)
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.		
Capital Lease	(1,211,345)	
Compensated Absences	<u>(343,213)</u>	
Total		<u>(1,554,558)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 22,385,450</u></u>

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2013*

	General	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 2,202,630	\$ 547,990	\$ 42,945	\$ 2,793,565
Intergovernmental	7,293,143	92,333	1,065,357	8,450,833
Investment Income	(4,088)	0	7,560	3,472
Tuition and Fees	298,731	0	0	298,731
Extracurricular Activities	63,276	0	97,833	161,109
Rentals	393	0	0	393
Charges for Services	165,794	0	159,135	324,929
Contributions and Donations	2,700	0	7,887	10,587
Miscellaneous	55,789	0	44	55,833
<i>Total Revenues</i>	<u>10,078,368</u>	<u>640,323</u>	<u>1,380,761</u>	<u>12,099,452</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	3,928,393	14,576	69,227	4,012,196
Special	1,625,560	0	476,846	2,102,406
Vocational	40,855	0	0	40,855
Support Services:				
Pupils	575,968	0	0	575,968
Instructional Staff	203,525	44,215	9,814	257,554
Board of Education	19,169	0	0	19,169
Administration	706,820	0	43,401	750,221
Fiscal	255,656	14,052	1,625	271,333
Business	831,682	0	0	831,682
Operation and Maintenance of Plant	991,887	14,834	56,699	1,063,420
Pupil Transportation	554,094	0	18,535	572,629
Extracurricular Activities	234,392	0	107,947	342,339
Operation of Non-Instructional Services:				
Food Service Operations	0	0	530,740	530,740
Community Services	1,000	0	0	1,000
Capital Outlay	0	35,499	0	35,499
Debt Service:				
Principal Retirement	0	307,344	0	307,344
Interest and Fiscal Charges	0	76,627	0	76,627
<i>Total Expenditures</i>	<u>9,969,001</u>	<u>507,147</u>	<u>1,314,834</u>	<u>11,790,982</u>
<i>Net Change in Fund Balance</i>	109,367	133,176	65,927	308,470
<i>Fund Balances Beginning of Year</i>	<u>347,429</u>	<u>260,247</u>	<u>568,060</u>	<u>1,175,736</u>
<i>Fund Balances End of Year</i>	<u>\$ 456,796</u>	<u>\$ 393,423</u>	<u>\$ 633,987</u>	<u>\$ 1,484,206</u>

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2013*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	308,470
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	\$ 27,727	
Current Year Depreciation	<u>(818,693)</u>	(790,966)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(32,445)	
Intergovernmental	<u>37,832</u>	5,387
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		307,344
 In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when debt is issued.		
		2,710
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		<u>76,776</u>
 <i>Change in Net Position of Governmental Activities</i>	 \$	 <u><u>(90,279)</u></u>

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 2,183,828	\$ 2,217,982	\$ 2,221,241	\$ 3,259
Intergovernmental	7,170,302	7,282,444	7,293,143	10,699
Tuition and Fees	293,699	298,293	298,731	438
Rentals	386	392	393	1
Charges for Services	163,001	165,551	165,794	243
Contributions and Donations	2,655	2,696	2,700	4
Miscellaneous	7,614	7,733	7,744	11
<i>Total Revenues</i>	<u>9,821,485</u>	<u>9,975,091</u>	<u>9,989,746</u>	<u>14,655</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,220,630	4,441,468	3,904,900	536,568
Special	1,759,500	1,936,548	1,627,879	308,669
Vocational	43,617	42,900	40,354	2,546
Support Services:				
Pupils	614,310	640,110	568,356	71,754
Instructional Staff	231,187	211,314	213,893	(2,579)
Board of Education	20,783	27,635	19,228	8,407
Administration	789,227	794,271	730,188	64,083
Fiscal	301,645	284,300	279,080	5,220
Business	905,639	736,552	837,892	(101,340)
Operation and Maintenance of Plant	1,104,674	1,158,763	1,022,038	136,725
Pupil Transportation	583,271	641,674	539,639	102,035
Extracurricular Activities	188,634	186,125	174,523	11,602
Operation of Non-Instructional Services:				
Community Services	2,162	4,500	2,000	2,500
<i>Total Expenditures</i>	<u>10,765,279</u>	<u>11,106,160</u>	<u>9,959,970</u>	<u>1,146,190</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(943,794)</u>	<u>(1,131,069)</u>	<u>29,776</u>	<u>1,160,845</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	28,012	28,450	28,492	42
Advances In	41,503	42,152	42,214	62
Advances Out	(4,481)	(25,000)	(4,146)	20,854
Transfers Out	0	(100,000)	0	100,000
<i>Total Other Financing Sources (Uses)</i>	<u>65,034</u>	<u>(54,398)</u>	<u>66,560</u>	<u>120,958</u>
<i>Net Change in Fund Balance</i>	<u>(878,760)</u>	<u>(1,185,467)</u>	<u>96,336</u>	<u>1,281,803</u>
<i>Fund Balance Beginning of Year</i>	1,066,186	1,066,186	1,066,186	0
Prior Year Encumbrances Appropriated	<u>122,074</u>	<u>122,074</u>	<u>122,074</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 309,500</u>	<u>\$ 2,793</u>	<u>\$ 1,284,596</u>	<u>\$ 1,281,803</u>

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2013*

	Private Purpose Trust	Agency
<b>Assets</b>		
Cash and Cash Equivalents in Segregated Accounts	\$ 0	\$ 37,706
Investments in Segregated Accounts	69,702	0
<i>Total Assets</i>	69,702	\$ 37,706
 <b>Liabilities</b>		
Due to Students	0	\$ 37,706
 <b>Net Position</b>		
Held in Trust for Scholarships	\$ 69,702	

See accompanying notes and accountant's compilation report.



**East Palestine City School District**  
**Columbiana County, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Private Purpose Trust
<b>Additions</b>	
Investment Earnings	\$ 163
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	1,805
<i>Change in Net Position</i>	(1,642)
<i>Net Position Beginning of Year</i>	71,344
<i>Net Position End of Year</i>	\$ 69,702

See accompanying notes and accountant's compilation report.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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

The East Palestine City School District (the "School District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District.

***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; (3) 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 (4) 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) and Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 17. The East Palestine Public Library and the East Palestine City School District Education Foundation are related organizations of the School District, which is presented in Note 16 to the basic financial statements. The School District is also involved with the Portage Area School Consortium Health and Welfare Insurance Pool, a shared risk pool, which is presented in Note 15.

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 accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position 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. 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 two categories of funds: governmental and fiduciary.

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

**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.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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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.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. 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 position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

***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.

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. 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.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 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 and investments in segregated accounts) 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.

The School District did not have any investments during the fiscal year ending June 30, 2013.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Investment earnings (including fair market value adjustments for investments) credited to the general fund during fiscal year 2013 amounted to \$(4,088), which includes \$(1,735) assigned from other School District funds.

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.”

***F. 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 position 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

***G. 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 position.

***H. 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**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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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.

***I. 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. Capital leases are recognized as a liability on the fund financial statements when due.

***J. Net Position***

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

***K. 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:

*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.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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*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. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

*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.

***L. Interfund Activity***

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

***M. 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 2013.



**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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***N. 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.

***O. 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.

***P. Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School District.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School District.

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GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School District.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets. The implementation of GASB Statement No. 63 has changed the presentation of the School District's financial statements to incorporate the concept of net position.

**Note 3: Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as assigned 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).

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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>General Fund</u>
GAAP Basis	\$ 109,367
Net Adjustment for Revenue Accruals	3,146
Advances In	42,214
Net Adjustment for Expenditure Accruals	40,435
Advances Out	(4,146)
Fund Budgeted Elsewhere**	(3,569)
Encumbrances	(91,111)
Budgetary Basis	\$ 96,336

\*\* 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 are considered part of the general fund on a GAAP basis. This includes public school support and the adult education funds.

**Note 4: Fund Deficits**

Fund balances at June 30, 2013 included the following individual fund deficits:

	<u>Deficit</u>
<i>Other Governmental Funds:</i>	
Title II-A	\$ 9,373
Miscellaneous Federal Grants	1,795

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 5: Deposits and Investments**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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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 2013, 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 \$2,531,298. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2013, \$1,846,163 of the School District's bank balance of \$2,583,919 was exposed to custodial risk as discussed above. \$737,756 was covered by Federal Deposit Insurance Corporation.

***Cash in Segregated Accounts***

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

**Note 6: Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, 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 semiannually, 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.

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Public utility property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 and are collected in 2013 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased 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 in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was 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 are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

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, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2013, 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.

The amount available as an advance at June 30, 2013 was \$68,639 in the general fund, \$17,099 in the permanent improvement fund and \$1,315 in the classroom facilities maintenance fund. The amount available as an advance at June 30, 2012, was \$87,250 in the general fund, \$21,742 in the permanent improvement fund and \$1,659 in the classroom facilities maintenance fund.

On an 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.

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The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012		2013	
	Second-Half Collections		First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and other real estate	\$ 102,254,190	84%	\$ 102,281,380	84%
Commercial Industrial	13,958,550	11%	13,944,100	11%
Public Utility	6,231,240	5%	6,714,180	5%
<b>Total Assessed Value</b>	<b>\$ 122,443,980</b>	<b>100%</b>	<b>\$ 122,939,660</b>	<b>100%</b>
 Tax rate per \$1,000 of assessed value		<u>\$ 26.80</u>		<u>\$ 26.80</u>

**Note 7: Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2013 was as follows:

	Balance 6/30/2012	Additions	Reductions	Balance 6/30/2013
<b>Governmental Activities:</b>				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
 <i>Capital Assets, Being Depreciated:</i>				
Land Improvements	3,584,787	0	0	3,584,787
Building and Building Improvements	26,446,548	0	0	26,446,548
Furniture and Equipment	758,532	27,727	0	786,259
Vehicles	845,627	0	0	845,627
<i>Total Capital Assets, Being Depreciated</i>	<u>31,635,494</u>	<u>27,727</u>	<u>0</u>	<u>31,663,221</u>
 <i>Less Accumulated Depreciation:</i>				
Land Improvements	(937,939)	(170,765)	0	(1,108,704)
Building and Building Improvements	(7,295,207)	(578,184)	0	(7,873,391)
Furniture and Equipment	(525,986)	(33,135)	0	(559,121)
Vehicles	(636,946)	(36,609)	0	(673,555)
<i>Total Accumulated Depreciation</i>	<u>(9,396,078)</u>	<u>(818,693) *</u>	<u>0</u>	<u>(10,214,771)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>22,239,416</u>	<u>(790,966)</u>	<u>0</u>	<u>21,448,450</u>
 <i>Governmental Activities Capital Assets, Net</i>	<u>\$ 22,715,230</u>	<u>\$ (790,966)</u>	<u>\$ 0</u>	<u>\$ 21,924,264</u>

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

Instruction:	
Regular	\$ 374,335
Support Services:	
Instructional Staff	12,195
Board of Education	324
Operation and Maintenance	1,079
Pupil Transportation	25,384
Operation of Non-Instructional Services	4,765
Extracurricular Activities	400,611
Total Depreciation Expense	\$ 818,693

**Note 8: Receivables**

Receivables at June 30, 2013, consisted of taxes, interfund and intergovernmental (grants, workers' compensation premium refund 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 9: Long-Term Obligations**

The changes in the School District's long-term obligations during the fiscal year 2013 were as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due in One Year
Capital lease payable	\$ 1,518,689	\$ 0	\$ (307,344)	\$ 1,211,345	\$ 323,818
Compensated absences payable	419,989	6,837	(83,613)	343,213	27,205
Total long-term obligations	\$ 1,938,678	\$ 6,837	\$ (390,957)	\$ 1,554,558	\$ 351,023

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



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**Note 10: 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 position 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.

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, 2013:

Year ending June 30,	2014	\$ 383,671
	2015	383,671
	2016	383,671
	2017	191,836
		1,342,849
Less: amount representing interest		131,504
Present value of minimum lease payments		\$ 1,211,345

**Note 11: 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 defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 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](http://www.ohsers.org) under Employers/Audit Resources.

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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 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 2013, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to 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 and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$171,065, \$158,576 and \$161,318, respectively; 66 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011.

***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 publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$598,773, \$540,299 and \$541,495, respectively; 83 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$26,938 made by the School District and \$19,242 made by the plan members.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2013, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**Note 12: Postemployment Benefits**

***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, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. 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. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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 105(e). For fiscal year 2013, .16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

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Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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 (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011 were \$21,685, \$6,895, and \$38,213, respectively; 66 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$9,663, \$9,402 and \$10,381, respectively; 66 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

**Plan Description** - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (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 fiscal year 2013, 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, 2013, 2012, and 2011 were \$46,059, \$41,561, and \$41,653, respectively; 83 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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**Note 13: Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 260 days for all employees. Upon retirement, certificated employees receive payment for 25 percent of 144 accrued sick leave days plus 10 percent of all sick leave days accrued above and beyond the first 144 days up to the maximum accumulation. Classified employees receive payment for 25 percent of 135 days accrued sick leave days plus 10 percent of all sick leave days accrued above and beyond the first 135 days up to the maximum accumulation.

**B. Life Insurance**

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

**Note 14: Statutory Reserves**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the 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 amount for capital acquisitions. Disclosure of this information is required by State statute.

	Capital Acquisition
Set-Aside Reserve Balance June 30, 2012	\$ 0
Current Year Set Aside Requirement	209,730
Current Year Offsets	(695,225)
Total	\$ (485,495)
Balance Carried Forward to Fiscal Year 2014	\$ 0
Set Aside Reserve Balance June 30, 2013	\$ 0

Although the School District had offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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**Note 15: Risk Management**

**A. General Insurance**

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2013, 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	\$ 50,044,898
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.

**D. Employee Health Insurance**

On July 1, 2010, the School District joined 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.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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**Note 16: 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 2013.

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, 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 17: 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, 100 DeBartolo Place, Suite 222, Youngstown, Ohio 44512-7019. 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 \$30,924 for services provided during fiscal year 2013.

***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.

**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

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

**Note 18: Interfund Balances**

Interfund balances at June 30, 2013 consist of the following:

	Interfund Receivables	Interfund Payables
General Fund	\$ 4,146	\$ 0
<i>Nonmajor Governmental Fund:</i>		
Title I	0	4,146
Total	\$ 4,146	\$ 4,146

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 2014 once the anticipated revenues are received.

**Note 19: Contingencies**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the School District at June 30, 2013.

**B. Litigation**

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

**C. Encumbrance Commitments**

Outstanding encumbrances for governmental funds include \$67,791 in the general fund, \$17,894 in the permanent improvement fund and \$26,151 in the non-major governmental funds.



**East Palestine City School District**  
**Columbiana County, Ohio**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year June 30, 2013*

**Note 20: 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:				
Capital Projects	\$ 0	\$ 393,423	\$ 317,732	\$ 711,155
Classroom Facilities Maintenance	0	0	19,144	19,144
Food Service Operations	0	0	159,860	159,860
Extracurricular Activities	0	0	109,444	109,444
Other Purposes	0	0	38,975	38,975
Total Restricted	<u>0</u>	<u>393,423</u>	<u>645,155</u>	<u>1,038,578</u>
Assigned for:				
Encumbrances:				
Instruction	4,319	0	0	4,319
Support Services	60,839	0	0	60,839
Operation of Non-Instructional Services	1,000	0	0	1,000
Extracurricular	1,633	0	0	1,633
Subsequent Year Appropriations	367,113	0	0	367,113
Total Assigned	<u>434,904</u>	<u>0</u>	<u>0</u>	<u>434,904</u>
Unassigned	21,892	0	(11,168)	10,724
<i>Total Fund Balance</i>	<u>\$ 456,796</u>	<u>\$ 393,423</u>	<u>\$ 633,987</u>	<u>\$ 1,484,206</u>

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EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPT AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education:</i>					
<i>Nutrition Cluster:</i>					
<i>Non-Cash Assistance (Food Distribution):</i>					
National School Lunch Program	10.555		\$ 31,576		\$ 31,576
<i>Cash Assistance:</i>					
National School Breakfast Program	10.553	\$ 73,795		\$ 73,795	
National School Lunch Program	10.555	<u>275,823</u>		<u>275,823</u>	
Total U.S. Department of Agriculture		<u><b>349,618</b></u>	<u><b>31,576</b></u>	<u><b>349,618</b></u>	<u><b>31,576</b></u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	84.010	322,337		305,288	
Special Education_Grants to States	84.027	218,179		209,149	
Rural Education	84.358	18,460		22,605	
Improving Teacher Quality State Grants (Title II-A)	84.367	67,558		65,979	
Education Jobs Fund	84.410	56,094		50,359	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	2,800		2,800	
<i>Passed Through Mahoning County Educational Service Center:</i>					
Special Education_Grants to States	84.027	<u>11,270</u>			
Total U.S. Department of Education		<u><b>696,698</b></u>		<u><b>656,180</b></u>	
<b>Totals</b>		<u><b>\$1,046,316</b></u>	<u><b>\$31,576</b></u>	<u><b>\$1,005,798</b></u>	<u><b>\$31,576</b></u>

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

**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the "Schedule") reports the East Palestine City School District's (the "District's") federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the 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 DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Palestine City School District, Columbiana County, (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 15, 2014, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*.

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

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2013-001.

***Entity's Response to Findings***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 15, 2014



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the East Palestine City School District's (the "District") compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the East Palestine City School District's major federal program for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the East Palestine City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-002. This finding did not require us to modify our compliance opinion on the major federal program.

The District's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

### ***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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's applicable 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 a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 15, 2014



**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

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

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

**FINDING NUMBER 2013-001**

**Finding for Recovery - Repaid**

On August 6, 2012 the Board of Education passed resolution 2012-130 approving a supplemental contract for Rick Ellis, Treasurer, to serve as Financial Accountant over Federal programs and grant work for the 2012-2013 school year at a salary of \$7,000 and fringe benefits of \$1,807, totaling \$8,807. This contract was in addition to his current contract to serve as the Treasurer of the school.

In spite of any additional duties in managing Federal or state funds, Federal and state law prohibit treasurers from receiving a supplemental contract for managing Federal or state funds. **Ohio Rev. Code § 3313.24** provides, in part that the board of education of each local, exempted village or city school district shall fix the compensation of its treasurer which shall be paid from the general fund of the district.

In addition to statutory references, the Ohio Supreme Court has called into question the ability for boards of education to enter into supplemental contracts with non-teaching employees (**Hall v. Lakeview Local School District Board of Education, 63 Ohio St. 3d 380**). The referenced case provides, in part: "Ohio Revised Code 3319.081 applies to contracts with respect to nonteaching employees. The statute does not contain a provision authorizing a board of education to enter into supplemental contracts with nonteaching employees. In comparison, Ohio Revised Code 3319.08 specifically authorizes a board of education to enter into supplemental contracts with teachers whereby a teacher receives additional compensation for additional duties performed. Clearly, if the General Assembly had intended to empower a board of education to enter into supplemental contracts with nonteaching employees, the General Assembly could have specifically so stated as it did with regard to teachers in Ohio Revised Code 3319.08. Therefore, we find that a board of education does not have the authority to enter into supplemental contracts with nonteaching employees."

There is no violation of Federal law in this case because no Federal funds were used to pay Mr. Ellis' supplemental contract. The contract was paid out of the District's General fund.

In accordance with the foregoing facts and pursuant to Ohio Rev Code §117.28, a finding for recovery for public money illegally expended is hereby issued against Rick Ellis, Treasurer, and his bonding company Liberty Mutual, in the amount of \$8,807 in favor of the East Palestine City School District General Fund. On July 30, 2014, Mr. Rick Ellis repaid the \$8,807 with check number 981 to the District.

**Official's Response:**

The Board was attempting to follow Ohio and Federal laws and Board Policy when it approved Mr. Ellis' employment as Federal Programs Financial Accountant/Coordinator. The Board did not intend to enter into a supplemental contract with the Treasurer for the performance of those services. Instead, the Board intended to reflect the Treasurer's new responsibilities and salary increase through an addendum to his current employment contract. However, the District has taken and will continue to take steps to ensure that it will comply with the recommendations of the Auditor when entering into addendums with its Administrative staff.

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

**Single Audit Deadline**

<b>Finding Number</b>	2013-002
<b>CFDA Title and Number</b>	Title 1 (CFDA #84.010)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE**

**OMB Circular A-133 Section 200(b)** provides that non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted in accordance with **Section 500** except when they elect to have a program-specific audit conducted in accordance with paragraph **(c)** of this section.

**OMB Circular A-133 Section 320(a)** provides the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The East Palestine City School District (the "District") did not file its June 30, 2013 data Collection form and reporting package within the time frame as required by OMB Circular A-133 Section 320.

We recommend the District submit its data collection form and reporting package within the time frame as required.

**Official's Response:**

The East Palestine City School District ("District") could not file its June 30, 2013 data collection form and reporting package within the time frame required by OMB Circular A-133 Section 320 due to the ongoing negotiations between the State Auditor's Office and the District regarding this audit, which lasted until July 31, 2014. Finding 2013-002 unjustifiably penalizes the District for negotiating with the Auditor's Office and is invalid.

**AOS Conclusion:**

**OMB Circular A-133 Section 320(a)** provides the audit shall be completed and the data collection form and reporting package shall be submitted within nine months after the end of the audit period. The Auditor of State's Office does not have the authority to extend or waive this requirement.

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**EAST PALESTINE CITY SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-002	The District intends on complying with this requirement in the future.	March 31, 2015	Rick Ellis, Treasurer

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

Ohio Revised 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 procedure enumerated below, which was 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 Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure 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 the 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 at its meeting on November 1, 2010 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

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.

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

**Dave Yost**  
Auditor of State

May 15, 2014

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# 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  
AUGUST 19, 2014**