

428 Second St.
Marietta, OH 45750
740.373.0056

1035 Murdoch Ave.
Parkersburg, WV 26101
304.422.2203

104 South Sugar St.
St. Clairsville, OH 43950
740.695.1569



Certified Public Accountants, A.C.

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
Single Audit
For the Year Ended June 30, 2015**

www.perrycpas.com

...“bringing more to the table”

Tax– Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •



Dave Yost • Auditor of State

Board of Education
East Palestine City School District
200 W. North Ave
East Palestine, OH 44413

We have reviewed the *Independent Auditor's Report* of the East Palestine City School District, Columbiana County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

April 25, 2016

This page intentionally left blank.

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund	21
Statement of Fiduciary Net Position – Fiduciary Funds	22
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund	23
Notes to the Basic Financial Statements	24
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability School Employees Retirement System of Ohio (SERS).....	53
Schedule of the District's Proportionate Share of the Net Pension Liability State Teachers Retirement System of Ohio (STRS)	54
Schedule of School District Contributions School Employees Retirement System of Ohio (SERS).....	55
Schedule of School District Contributions State Teachers Retirement System of Ohio (STRS)	56
Schedule of Federal Awards Receipts and Expenditures	57

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

TABLE OF CONTENTS (Continued)

TITLE	PAGE
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	58
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	59
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	61
Schedule of Audit Findings – OMB Circular A -133 § .505	63



428 Second St.
Marietta, OH 45750
740.373.0056

1035 Murdoch Ave.
Parkersburg, WV 26101
304.422.2203

104 South Sugar St.
St. Clairsville, OH 43950
740.695.1569

INDEPENDENT AUDITOR'S REPORT

February 1, 2016

East Palestine City School District
Columbiana County
200 West 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, 2015, 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.



... "bringing more to the table"

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •



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 the East Palestine City School District, Columbiana County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof 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 3 to the financial statements, during the year ended June 30, 2015, the District adopted *Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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*, and schedules of net pension liabilities and pension contributions 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 not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the 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 February 1, 2016, 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 "Perry & Associates CPAs A.C." in a cursive script.

Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

The discussion and analysis of East Palestine City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- In total, net position decreased \$977,608, which represents a 12 percent decrease from the prior fiscal year.
- Capital assets decreased \$496,502, which represents a 2 percent decrease from the prior fiscal year.
- On a modified accrual basis, the general fund balance decreased \$1,725, or less than 1 percent.
- On a modified accrual basis, the permanent improvement fund balance decreased \$226,673, or 64 percent.
- The District implemented GASB 68 during the fiscal year, which resulted in the inclusion of a net pension liability of \$14,224,350. For more information on this liability see Note 13 to the basic financial statements.

Using these Basic Financial Statements

This annual report consists of this management's discussion and analysis, a series of financial statements and notes to those statements. These statements are organized so the reader can understand East Palestine City School District as a financial whole, an 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 District, presenting both an aggregate view of the 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 and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the East Palestine City School District, the general fund and the permanent improvement capital projects fund are the most significant funds, and are the only two funds reported as major.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District has only one kind of activity:

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. Due to the continuing subsidies that go to the lunchroom fund from the general fund, the lunchroom operation is also being considered as governmental activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the permanent improvement capital projects fund.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, 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 District's general governmental 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 difference) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Reporting the District's Fiduciary Responsibilities

The 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 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 District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

The Statement of Net Position provides the perspective of the District as a whole. Table 1 shows net position for fiscal year 2015 as compared to fiscal year 2014.

Table 1
Net Position (Table 1)

	2015	(Restated) 2014	Change
Assets			
Current and Other Assets	\$5,014,031	\$5,272,486	(\$258,455)
Capital Assets, Net	20,621,099	21,117,601	(496,502)
<i>Total Assets</i>	<u>25,635,130</u>	<u>26,390,087</u>	<u>(754,957)</u>
Deferred Outflows of Resources			
Pension	906,221	778,480	127,741
Liabilities			
Current Liabilities	1,209,738	1,206,612	3,126
Long-Term Liabilities			
Due within One Year	415,853	377,362	38,491
Due in More than One Year:			
Net Pension Liability	11,968,582	14,224,350	(2,255,768)
Other Amounts	1,035,763	893,965	141,798
<i>Total Liabilities</i>	<u>14,629,936</u>	<u>16,702,289</u>	<u>(2,072,353)</u>
Deferred Inflows of Resources			
Property Taxes	2,632,186	2,378,009	254,177
Pension	2,168,568	0	2,168,568
<i>Total Deferred Inflows of Resources</i>	<u>4,800,754</u>	<u>2,378,009</u>	<u>2,422,745</u>
Net Position			
Net Investment in Capital Assets	19,848,146	20,230,074	(381,928)
Restricted	290,993	1,007,271	(716,278)
Unrestricted (Deficit)	(13,028,478)	(13,149,076)	120,598
<i>Total Net Position</i>	<u>\$7,110,661</u>	<u>\$8,088,269</u>	<u>(\$977,608)</u>

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

During 2015, the District adopted GASB Statement No 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27", which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported pension.

Governmental Accounting Standards Board standards are national and apply to all governmental financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB No. 27 focused on a funding approach. This approach limited pension costs to contributions manually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB No. 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the District, part of a bargained-for benefit to the employee, and should accordingly be reported by the District as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute. A change in these caps requires action of both Houses of the General Assembly, and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the District. In the event that contributions, investment returns and other changes are insufficient to keep up with required pension payments, state statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB No. 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability.

As a result of implementing GASB No. 68, the District is reporting a net pension liability and deferred outflows and inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$21,534,139 to \$8,088,269.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the District's assets plus deferred outflows exceeded liabilities plus deferred inflows by \$7,110,661. Unrestricted net position at the end of the current fiscal year was a negative \$13,028,478.

At fiscal year-end, capital assets represented 80 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The net investment in capital assets at June 30, 2015, was \$19,848,146. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Total liabilities decreased \$2,072,353 primarily due to the decrease in net pension liability and the principal payments made on the outstanding capital lease obligations.

Restricted net position of \$290,993 represents resources that are subject to external restriction on how they may be used.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Table 2 shows the changes in net position for fiscal year 2015 and 2014:

	Table 2		
	Change in Net Position		
	2015	2014	Increase (Decrease)
Revenues			
Program Revenues			
Charges for Services and Sales	\$679,156	\$771,871	(\$92,715)
Operating Grants and Contributions	1,107,954	1,014,158	93,796
<i>Total Program Revenues</i>	<u>1,787,110</u>	<u>1,786,029</u>	<u>1,081</u>
General Revenues			
Property Taxes	2,913,084	2,738,273	174,811
Grants and Entitlements Not Restricted	8,156,884	7,929,019	227,865
Investment Earnings	5,833	7,653	(1,820)
Miscellaneous	245,797	73,731	172,066
Gain on Sale of Capital Assets	3,000	0	0
<i>Total General Revenues</i>	<u>11,324,598</u>	<u>10,748,676</u>	<u>572,922</u>
<i>Total Revenues</i>	<u>13,111,708</u>	<u>12,534,705</u>	<u>574,003</u>
Program Expenses			
Current:			
Instruction:			
Regular	4,998,953	4,555,222	443,731
Special	2,576,815	2,422,238	154,577
Vocational	42,645	41,763	882
Support Services:			
Pupil	607,890	789,020	(181,130)
Instructional Staff	224,463	342,871	(118,408)
Board of Education	27,323	25,623	1,700
Administration	762,613	841,837	(79,224)
Fiscal	322,704	315,912	6,792
Business	953,113	820,032	133,081
Operation and Maintenance of Plant	1,126,341	1,106,204	20,137
Pupil Transportation	806,059	692,555	113,504
Operation of Non-Instructional Services	4,771	7,052	(2,281)
Operation of Food Services	511,228	507,657	3,571
Extracurricular Activities	1,076,048	861,032	215,016
Interest and Fiscal Charges	48,350	56,998	(8,648)
<i>Total Program Expenses</i>	<u>14,089,316</u>	<u>13,386,016</u>	<u>703,300</u>
<i>Change in Net Position</i>	(977,608)	(851,311)	(129,297)
Net Position Beginning of Year - Restated	8,088,269	n/a	n/a
<i>Net Position End of Year</i>	<u>\$7,110,661</u>	<u>\$8,088,269</u>	<u>(\$129,297)</u>

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Governmental Activities

The information necessary to restate the fiscal year 2014 beginning balances and fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB No. 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$778,480 computed under GASB No. 27. GASB No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB No. 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB No. 68, the fiscal year 2015 statements report negative pension expense of \$578,301.

In order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$14,089,316
Pension expenses under GASB 68	(578,301)
2015 contractually required contributions	793,242
Adjusted 2015 program expenses	<u>14,304,257</u>
Total 2014 program expenses under GASB 27	13,386,016
Increase in program expenses not related to pension	<u><u>\$918,241</u></u>

Unrestricted grants and entitlements increased due to increased foundation receipts.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 84 percent of total governmental revenue. Property taxes support 21 percent of total expenses while grants and entitlements supported 58 percent of total expenses. Between these two revenue items, nearly 79 percent of total expenses were funded.

The largest expense of the District is for its instructional programs. Instructional expenses totaled \$7,618,413, or 54 percent, of total governmental expenses.

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 for fiscal year 2015 and 2014. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

East Palestine City School District
Columbiana County, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)*

Table 3
Total and Net Cost of Program Services

	2015		2014	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses				
Instruction	\$7,618,413	\$6,563,950	\$7,019,223	\$5,992,359
Support Services:				
Pupil	607,890	607,890	789,020	789,020
Instructional Staff	224,463	215,800	342,871	337,471
Board of Education	27,323	27,323	25,623	25,623
Administration	762,613	748,891	841,837	819,222
Fiscal	322,704	322,704	315,912	315,912
Business	953,113	953,113	820,032	820,032
Operation and Maintenance of Plant	1,126,341	1,126,341	1,106,204	1,106,204
Pupil Transportation	806,059	779,977	692,555	651,736
Operation of Non-Instructional Services	4,771	4,771	7,052	7,052
Food Service Operation	511,228	2,769	507,657	(611)
Extracurricular Activities	1,076,048	900,327	861,032	678,969
Interest and Fiscal Charges	48,350	48,350	56,998	56,998
<i>Total Expenditures</i>	<u>\$14,089,316</u>	<u>\$12,302,206</u>	<u>\$13,386,016</u>	<u>\$11,599,987</u>

The dependence upon general tax revenues and other general revenues for governmental activities is apparent. Over 80 percent of all District expenses are supported through general revenues. The community, as a whole, is by far the primary support for East Palestine City School District students.

The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$858,226 which is a decrease from last year's total of \$1,265,652 by more than 32 percent. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	Fund Balance June 30, 2015	Fund Balance June 30, 2014	(Decrease)
General	\$427,698	\$429,423	(\$1,725)
Permanent Improvement	128,692	355,365	(226,673)
Other Governmental	301,836	480,864	(179,028)
Total	<u>\$858,226</u>	<u>\$1,265,652</u>	<u>(\$407,426)</u>

General Fund

During fiscal year 2015, the District's general fund balance decreased on a modified accrual basis by \$1,725; total revenues within the general fund increased by 3 percent while expenditures also increased by 3 percent, resulting in the overall slight decrease to fund balance. The following table assists in illustrating the financial activities and fund balance of the general fund.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

	2015 Amount	2014 Amount	Percentage Change
<u>Revenues</u>			
Taxes	\$2,323,367	\$2,211,459	5.1 %
Tuition and Fees	359,139	270,037	33.0 %
Charges for Services	0	180,727	(100.0) %
Intergovernmental	8,057,221	7,865,894	2.4 %
Other revenues	289,508	137,830	110.0 %
Total	\$11,029,235	\$10,665,947	3.4 %
<u>Expenditures</u>			
Instruction	6,188,705	5,872,232	5.4 %
Support services	4,583,183	4,581,193	0.0 %
Operation of non-instructional services	2,757	3,087	(10.7) %
Extracurricular activities	248,764	236,808	5.0 %
Debt service	7,551	0	n/a %
Total	\$11,030,960	\$10,693,320	3.2 %

Permanent Improvement Fund

The District's permanent improvement capital projects fund had \$669,100 in revenues and other financing sources and \$895,773 in expenditures. The fund balance decreased \$226,673 from a balance of \$355,365 in fiscal year 2014, to a balance of \$128,692 in fiscal year 2015.

General Fund Budgeting Highlights

The 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 2015 the District amended its general fund budget a few times. The 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 revenue, including other financing sources, was \$10,966,248, which was \$16,036 higher than the final budgeted revenue of \$10,950,212.

Total actual expenditures, including other financing uses, were \$11,150,168, which was \$887,264 less than final appropriations of \$12,037,432. The variance with final appropriations was due to a conservative estimates approach.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the District had \$21,621,099 invested in capital assets. Table 4 shows fiscal year 2015 balances compared to fiscal year 2014:

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

	2015	2014
Land	\$475,814	\$475,814
Land Improvements	2,125,817	2,305,318
Buildings and Building Improvements	17,639,904	17,994,364
Furniture and Equipment	172,509	197,510
Vehicles	207,055	144,595
<i>Total</i>	\$20,621,099	\$21,117,601

All capital assets, except land are reported net of depreciation. The District had an overall decrease in capital assets of \$496,502, attributable to current year depreciation of \$815,713 exceeding current year additions of \$319,211. For more information about the District's capital assets, see Note 9 to the basic financial statements.

Long-Term Debt Obligations

At June 30, 2015, the District had \$546,353 in capital leases and \$541,840 in Energy Conservation Notes payable and outstanding with \$388,461 due within one year. The following table summarizes the outstanding capital lease obligations.

Table 5
Outstanding Long-Term Debt Obligations at Year End

	2015	2014
Capital Leases Payable	\$546,353	\$887,527
House Bill 264 Energy Conservation Note	541,840	0
<i>Total</i>	\$1,088,193	\$887,527

The District issued Energy Conservation Notes to upgrade various buildings throughout the District during the fiscal year. The notes mature December 1, 2029 and have an interest rate of 2.90 percent.

See Notes 11 and 12 to the basic financial statements for additional details.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Current Issues

The East Palestine City School District continues to receive strong support from the residents of the District. The District property tax levy is at the 20 mill 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 inflammatory increase in value is comparable to other property owners) the effective tax rate would become 0.5 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 members having little or no experience.

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

Contacting the District's Financial Management

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

East Palestine City School District

Columbiana County, Ohio

*Statement of Net Position**June 30, 2015*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,736,066
Cash and Cash Equivalents:	
In Segregated Accounts	214,182
Accrued Interest Receivable	1,083
Intergovernmental Receivable	15,829
Property Taxes Receivable	3,046,871
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets, Net	20,145,285
<i>Total Assets</i>	<u>25,635,130</u>
Deferred Outflows of Resources	
Pension:	
STRS	658,818
SERS	247,403
<i>Total Deferred Outflows of Resources</i>	<u>906,221</u>
Liabilities	
Accounts Payable	24,431
Accrued Wages and Benefits Payable	846,609
Intergovernmental Payable	307,844
Matured Compensated Absences Payable	24,727
Accrued Interest Payable	6,127
Long-Term Liabilities:	
Due Within One Year	415,853
Due In More Than One Year:	
Net Pension Liability (See Note 13)	11,968,582
Other Amounts Due in More than One Year	1,035,763
<i>Total Liabilities</i>	<u>14,629,936</u>
Deferred Inflows of Resources	
Property Taxes	2,632,186
Pension:	
STRS	1,842,084
SERS	326,484
<i>Total Deferred Inflows of Resources</i>	<u>4,800,754</u>
Net Position	
Net Investment in Capital Assets	19,848,146
Restricted for:	
Debt Service	43,301
Other Purposes	247,692
Unrestricted (Deficit)	(13,028,478)
<i>Total Net Position</i>	<u>\$7,110,661</u>

See accompanying notes to the basic financial statements

East Palestine City School District

Columbiana County, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2015

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities				
Current:				
Instruction:				
Regular	\$4,998,953	\$330,287	\$142,080	(\$4,526,586)
Special	2,576,815	28,917	553,179	(1,994,719)
Vocational	42,645	0	0	(42,645)
Support Services:				
Pupils	607,890	0	0	(607,890)
Instructional Staff	224,463	0	8,663	(215,800)
Board of Education	27,323	0	0	(27,323)
Administration	762,613	0	13,722	(748,891)
Fiscal	322,704	0	0	(322,704)
Business	953,113	0	0	(953,113)
Operation and Maintenance of Plant	1,126,341	0	0	(1,126,341)
Pupil Transportation	806,059	0	26,082	(779,977)
Operation of Non-Instructional Services	4,771	0	0	(4,771)
Operation of Food Services	511,228	172,017	336,442	(2,769)
Extracurricular Activities	1,076,048	147,935	27,786	(900,327)
Interest and Fiscal Charges	48,350	0	0	(48,350)
<i>Total Governmental Activities</i>	<u>\$14,089,316</u>	<u>\$679,156</u>	<u>\$1,107,954</u>	<u>(12,302,206)</u>
		General Revenues		
		Property Taxes Levied for:		
		General Purposes		2,300,487
		Capital Outlay		567,628
		Other Purposes		44,969
		Grants and Entitlements not		
		Restricted to Specific Programs		8,156,884
		Investment Earnings		5,833
		Miscellaneous		245,797
		Gain on Sale of Capital Assets		3,000
		<i>Total General Revenues</i>		<u>11,324,598</u>
		Change in Net Position		(977,608)
		<i>Net Position Beginning</i>		
		<i>of Year - Restated (See Note 3)</i>		8,088,269
		<i>Net Position End of Year</i>		<u>\$7,110,661</u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

Balance Sheet
Governmental Funds
June 30, 2015

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,428,323	\$107,126	\$200,617	\$1,736,066
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	214,182	214,182
Accrued Interest Receivable	0	0	1,083	1,083
Interfund Receivable	44,146	0	0	44,146
Intergovernmental Receivable	0	0	15,829	15,829
Property Taxes Receivable	2,405,860	593,793	47,218	3,046,871
<i>Total Assets</i>	<u>\$3,878,329</u>	<u>\$700,919</u>	<u>\$478,929</u>	<u>\$5,058,177</u>
Liabilities				
Accounts Payable	\$24,414	\$0	\$17	\$24,431
Accrued Wages and Benefits Payable	783,115	0	63,494	846,609
Intergovernmental Payable	299,780	0	8,064	307,844
Matured Compensated Absences Payable	24,727	0	0	24,727
Interfund Payable	0	0	44,146	44,146
<i>Total Liabilities</i>	<u>1,132,036</u>	<u>0</u>	<u>115,721</u>	<u>1,247,757</u>
Deferred Inflows of Resources				
Property Taxes	2,078,783	512,662	40,741	2,632,186
Unavailable Revenue - Property Taxes	239,812	59,565	4,802	304,179
Unavailable Revenue - Intergovernmental	0	0	15,829	15,829
<i>Total Deferred Inflows of Resources</i>	<u>2,318,595</u>	<u>572,227</u>	<u>61,372</u>	<u>2,952,194</u>
Fund Balances				
Restricted	0	128,692	397,345	526,037
Assigned	210,344	0	0	210,344
Unassigned (Deficit)	217,354	0	(95,509)	121,845
<i>Total Fund Balances</i>	<u>427,698</u>	<u>128,692</u>	<u>301,836</u>	<u>858,226</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$3,878,329</u>	<u>\$700,919</u>	<u>\$478,929</u>	<u>\$5,058,177</u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2015*

Total Governmental Fund Balances	\$858,226
 <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.	20,621,099
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	304,179
Intergovernmental Grants	<u>15,829</u>
Total	320,008
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.	
STRS	(9,957,008)
SERS	<u>(2,011,574)</u>
Total	(11,968,582)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pensions:	
STRS	658,818
SERS	<u>247,403</u>
Total	906,221
Deferred inflows of resources related to pensions:	
STRS	(1,842,084)
SERS	<u>(326,484)</u>
Total	(2,168,568)
In the statement of activities, interest is accrued on outstanding leases and notes whereas in governmental funds, an interest expenditure is reported when due.	(6,127)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Energy Conservation Note	(541,840)
Compensated Absences	(363,423)
Capital Leases	<u>(546,353)</u>
Total	<u>(1,451,616)</u>
<i>Net Position of Governmental Activities:</i>	<u><u>\$7,110,661</u></u>

See accompanying notes to the basic financial statements

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, 2015

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,323,367	\$573,485	\$45,392	\$2,942,244
Tuition and Fees	359,139	0	0	359,139
Interest	0	0	5,833	5,833
Charges for Services	0	0	172,017	172,017
Extracurricular Activities	42,266	0	105,734	148,000
Contributions and Donations	1,652	0	26,134	27,786
Intergovernmental	8,057,221	92,615	1,168,086	9,317,922
Miscellaneous	245,590	0	207	245,797
<i>Total Revenues</i>	<u>11,029,235</u>	<u>666,100</u>	<u>1,523,403</u>	<u>13,218,738</u>
Expenditures				
Current:				
Instruction:				
Regular	4,176,078	116,508	158,198	4,450,784
Special	1,968,227	0	630,381	2,598,608
Vocational	44,400	0	0	44,400
Support Services:				
Pupils	624,053	0	0	624,053
Instructional Staff	135,804	74,830	8,663	219,297
Board of Education	26,796	0	0	26,796
Administration	783,228	0	16,121	799,349
Fiscal	306,753	14,692	1,179	322,624
Business	953,113	0	0	953,113
Operation and Maintenance of Plant	1,096,936	0	63,604	1,160,540
Pupil Transportation	656,500	83,614	27,171	767,285
Operation of Non-Instructional Services	2,757	0	0	2,757
Operation of Food Services	0	0	504,775	504,775
Extracurricular Activities	248,764	0	150,583	399,347
Capital Outlay	0	222,458	683,596	906,054
Debt Service:				
Principal Retirement	0	341,174	0	341,174
Interest and Fiscal Charges	7,551	42,497	0	50,048
<i>Total Expenditures</i>	<u>11,030,960</u>	<u>895,773</u>	<u>2,244,271</u>	<u>14,171,004</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,725)</u>	<u>(229,673)</u>	<u>(720,868)</u>	<u>(952,266)</u>
Other Financing Sources (Uses)				
Proceeds of Notes	0	0	541,840	541,840
Proceeds from Sale of Capital Assets	0	3,000	0	3,000
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>3,000</u>	<u>541,840</u>	<u>544,840</u>
<i>Net Change in Fund Balances</i>	(1,725)	(226,673)	(179,028)	(407,426)
<i>Fund Balance Beginning of Year</i>	429,423	355,365	480,864	1,265,652
<i>Fund Balance End of Year</i>	<u>\$427,698</u>	<u>\$128,692</u>	<u>\$301,836</u>	<u>\$858,226</u>

See accompanying notes to the basic financial statements

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, 2015*

Net Change in Fund Balances - Total Governmental Funds	(\$407,426)
 Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
Capital Outlay	319,211
Current Year Depreciation	<u>(815,713)</u>
Total	(496,502)
The net effect of various transactions involving capital assets (i.e.; disposals and sales) is a decrease in net position.	
Assets Disposed	(74,818)
Accumulated Depreciation on Disposals	<u>74,818</u>
Total	0
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Delinquent Property Taxes	(29,160)
Intergovernmental Grants	<u>(80,870)</u>
Total	(110,030)
Other financing sources in the governmental funds increase long-term liabilities in the statement of net position.	
Energy Conservation Note Issued	(541,840)
Repayment of long-term note and lease principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	
	341,174
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Accrued Interest on Leases	1,698
Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Direct pension contributions	
STRS	562,960
SERS	<u>230,282</u>
Total	793,242
Cost of benefits earned net of employee contributions	
STRS	(460,004)
SERS	<u>(118,297)</u>
Total	(578,301)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
	<u>20,377</u>
<i>Change in Net Position of Governmental Activities</i>	<u>(\$977,608)</u>

See accompanying notes to the basic financial statements

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, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$2,455,400	\$2,302,500	\$2,302,148	(\$352)
Tuition and Fees	300,000	301,000	359,204	58,204
Contributions and Donations	0	13,000	1,652	(11,348)
Intergovernmental	7,678,938	7,835,458	8,057,221	221,763
Miscellaneous	653	235,000	182,769	(52,231)
<i>Total Revenues</i>	<u>10,434,991</u>	<u>10,686,958</u>	<u>10,902,994</u>	<u>216,036</u>
Expenditures				
Current:				
Instruction:				
Regular	4,959,842	4,959,842	4,202,257	757,585
Special	1,843,883	1,843,883	1,953,361	(109,478)
Vocational	45,984	45,984	44,397	1,587
Support Services:				
Pupils	911,750	911,750	663,051	248,699
Instructional Staff	139,071	139,071	167,134	(28,063)
Board of Education	31,947	31,947	27,080	4,867
Administration	874,541	874,541	799,853	74,688
Fiscal	340,577	340,577	302,309	38,268
Business	823,320	823,320	953,113	(129,793)
Operation and Maintenance of Plant	1,163,624	1,163,624	1,150,756	12,868
Pupil Transportation	650,992	650,992	663,339	(12,347)
Operation of Non-Instructional Services	6,000	6,000	2,757	3,243
Extracurricular Activities	188,350	188,350	208,210	(19,860)
Debt Service:				
Interest and Fiscal Charges	5,500	7,551	7,551	0
<i>Total Expenditures</i>	<u>11,985,381</u>	<u>11,987,432</u>	<u>11,145,168</u>	<u>842,264</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,550,390)</u>	<u>(1,300,474)</u>	<u>(242,174)</u>	<u>1,058,300</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditure	0	63,254	63,254	0
Advances In	0	100,000	0	(100,000)
Advances Out	0	(50,000)	(5,000)	45,000
Transfers In	0	100,000	0	(100,000)
Transfers Out	(70,000)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(70,000)</u>	<u>213,254</u>	<u>58,254</u>	<u>(155,000)</u>
<i>Net Change in Fund Balance</i>	<u>(1,620,390)</u>	<u>(1,087,220)</u>	<u>(183,920)</u>	<u>903,300</u>
<i>Fund Balance Beginning of Year</i>	1,094,667	1,094,667	1,094,667	0
<i>Prior Year Encumbrances Appropriated</i>	255,341	255,341	255,341	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$270,382)</u>	<u>\$262,788</u>	<u>\$1,166,088</u>	<u>\$903,300</u>

See accompanying notes to the basic financial statements

East Palestine City School District

Columbiana County, Ohio

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2015

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Cash and Cash Equivalents in Segregated Accounts	\$0	\$40,603
Investments in Segregated Accounts	<u>67,451</u>	<u>0</u>
<i>Total Assets</i>	<u>67,451</u>	<u><u>\$40,603</u></u>
Liabilities		
Due to Students	<u>0</u>	<u><u>\$40,603</u></u>
Net Position		
Held in Trust for Scholarships	<u><u>\$67,451</u></u>	

See accompanying notes to the basic financial statements

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, 2015

	<u>Private Purpose Trust</u>
Additions	
Interest	\$4
Deductions	
Payments in Accordance with Trust Agreements	<u>1,450</u>
<i>Change in Net Position</i>	(1,446)
<i>Net Position Beginning of Year</i>	<u>68,897</u>
<i>Net Position End of Year</i>	<u><u>\$67,451</u></u>

See accompanying notes to the basic financial statements

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 1 - Description of the District

The East Palestine City School District (the "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 District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the 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 District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; (3) the 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 District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District does not have any component units.

The 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 19. The East Palestine Public Library and the East Palestine City School District Education Foundation are related organizations of the District, which is presented in Note 18 to the basic financial statements. The District is also involved with the Portage Area School Consortium Health and Welfare Insurance Pool, a shared risk pool, which is presented in Note 17.

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

The 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.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Government-wide Financial Statements The statement of net position and the statement of activities display information about the 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 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 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 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 District.

Fund Financial Statements During the year, the School District segregates transactions related to certain 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 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 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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following are the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

The other governmental funds of the District account for grants and other resources, and capital projects of the District, whose uses are restricted, committed or assigned to a particular purpose.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds include private purpose trust funds which account for scholarship programs for the students. Agency funds

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The 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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the 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, deferred outflows of resources, current liabilities and deferred inflows of resources 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 the statements for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred inflows, deferred outflows, 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 District, available means expected to be received within sixty days of the fiscal year-end.

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 Outflows/Inflows of Resources - In addition to assets, the statements of net position and balance sheets will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources include pension related amounts reported in the government-wide statement of net position. The deferred outflows of resources related to pension are explained in Note 13.

In addition to liabilities, the statements of net position and balance sheets report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide of statement of net position (see Note 13).

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 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 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, 2015.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Investment earnings credited to the general fund during fiscal year 2015 amounted to zero, which includes a negative \$3,532 assigned from other 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."

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 District maintains a capitalization threshold of \$5,000. The 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:

<u>Description</u>	<u>Estimated Lives</u>
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.

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 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.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

However, 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 all other elements in a statement of financial position. 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include operation of instructional services, food service operations and extracurricular activities.

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

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. 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.

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 District Board of Education. Those committed amounts cannot be used for any other purpose unless the 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 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 the District Board of Education, which may be expressed by a motion but need not be passed by formal action, such as a Board Resolution.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 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 non-operating 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 2015.

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 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.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Note 3 – Change in Accounting Principle & Restatement of Prior Year Net Position

A. Change in Accounting Principles

For fiscal year 2015, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”, Statement No. 69, “Government Combinations and Disposals of Government Operations”, and Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.”

GASB Statement No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The implementation of GASB 68 resulted in an overall restatement of beginning net position, as previously reported.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement requires the use of carrying values to measure the assets and liabilities in a government merger. It also requires measurements of assets acquired and liabilities assumed to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. The Statement also provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. Disclosures about government combinations and disposals of government operations are required to enable financial statement users to evaluate the nature and financial effects of those transactions. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

GASB Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of GASB 71 resulted in an overall restatement of beginning net position, as previously reported.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

B. Restatement of Prior Year Net Position

	<u>Governmental Activities</u>
Net Position at June 30, 2014, as Previously Reported	\$21,534,139
<i>Implementation of GASB 68 and GASB 71:</i>	
Net Pension Liability - STRS	(11,860,723)
Net Pension Liability - SERS	(2,363,627)
<i>Deferred Outflows - District's Contributions Made During Fiscal Year 2014</i>	
STRS	617,493
SERS	<u>160,987</u>
Adjusted Net Position at June 30, 2014	<u><u>\$8,088,269</u></u>

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balances (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. *Certain funds have legally separate adopted budgets (budget) but are included in the General Fund (GAAP).

*As part of Governmental Accounting Standards Board No. 54 "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the General fund on a GAAP basis. These include the adult education and public school support special revenue funds.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$1,725)
Net Adjustment for Revenue Accruals	(60,648)
Net Adjustment for Expenditure Accruals	120,550
Advance Out	(5,000)
Net Adjustment for Funds Budgeted as Special Revenue	(2,339)
Adjustment for Encumbrances	<u>(234,758)</u>
Budget Basis	<u><u>(\$183,920)</u></u>

Note 5 – Fund Deficits

Fund balances at June 30, 2015 included the following individual fund deficits:

<u>Nonmajor Governmental Funds:</u>	<u>Deficit</u>
High School at Work	\$4,963
IDEA Part B	5,882
Title I	36,178
Improving Teacher Quality	46,181
Miscellaneous Federal Grants	2,305

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

Note 6 - Deposits and Investments

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

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

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

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Interim monies held by the District can 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 payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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 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.

A. Deposits

Custodial Credit Risk Custodial credit risk is the risk that, in the event of bank failure, the 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 a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

At June 30, 2015, the carrying value amount of all the District's deposits was \$2,058,302. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", as of June 30, 2014, \$1,601,937 of the District's bank balance of \$2,215,387 was exposed to custodial risk as described below, meaning \$613,450 was covered by the Federal Deposit Insurance Corporation (FDIC).

B. Cash in Segregated Accounts

The 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.

C. Reconciliation of Cash and Investments to the Statements of Net Position

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the Statement of Net Position as of June 30, 2015:

<u>Cash and Investments per Note Disclosure</u>	
Carrying amount of deposits	\$2,058,302
Investments	0
Cash on hand	0
Total	<u>\$2,058,302</u>

<u>Cash and Investments per Statement of Net Position</u>	
Governmental activities	\$1,950,248
Private-purpose trust funds	67,451
Agency funds	40,603
Total	<u>\$2,058,302</u>

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the district fiscal year runs from July through June. First half tax collections are received by the 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 property and public utility property located in the District. Real property tax revenue received in calendar 2015 represent collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2013, were levied after April 1, 2014 and are collected in 2015 with real

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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.

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 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, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2015 was \$87,265 in the general fund, \$21,566 in the permanent improvement capital projects fund and \$1,675 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2014 was \$66,046 in the general fund, \$16,351 in the permanent improvement capital projects fund and \$1,277 in the classroom facilities maintenance special revenue fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$102,439,500	82.71 %	\$102,615,040	82.34 %
Commercial Industrial	14,086,180	11.37	13,998,380	11.23
Public Utility	7,331,920	5.92	8,003,900	6.42
Total	<u>\$123,857,600</u>	<u>100.00 %</u>	<u>\$124,617,320</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$26.80		\$26.80	

Note 8 - Receivables

Receivables at June 30, 2015, consisted of taxes, accounts (rent, student fees and tuition), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of receivables reported on the statement of net position follows:

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Governmental Activities:	
Property Taxes	\$3,046,871
Intergovernmental	15,829
Accrued Interest	<u>1,083</u>
Total Receivables	<u><u>\$3,063,783</u></u>

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance 6/30/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/15</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	<u>\$475,814</u>	<u>\$0</u>	<u>\$0</u>	<u>\$475,814</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	3,584,787	0	0	3,584,787
Buildings and Building Improvements	26,446,548	226,600	0	26,673,148
Furniture and Equipment	798,057	5,997	(5,818)	798,236
Vehicles	<u>845,627</u>	<u>86,614</u>	<u>(69,000)</u>	<u>863,241</u>
<i>Total capital assets being depreciated</i>	<u>31,675,019</u>	<u>319,211</u>	<u>(74,818)</u>	<u>31,919,412</u>
<i>Accumulated depreciation:</i>				
Land Improvements	(1,279,469)	(179,501)	0	(1,458,970)
Buildings and Building Improvements	(8,452,184)	(581,060)	0	(9,033,244)
Furniture and Equipment	(600,547)	(30,998)	5,818	(625,727)
Vehicles	<u>(701,032)</u>	<u>(24,154)</u>	<u>69,000</u>	<u>(656,186)</u>
<i>Total accumulated depreciation</i>	<u>(11,033,232)</u>	<u>(815,713) *</u>	<u>74,818</u>	<u>(11,774,127)</u>
Capital assets being depreciated, net	<u>20,641,787</u>	<u>(496,502)</u>	<u>0</u>	<u>20,145,285</u>
Governmental activities capital assets, net	<u><u>\$21,117,601</u></u>	<u><u>(\$496,502)</u></u>	<u><u>\$0</u></u>	<u><u>\$20,621,099</u></u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$371,221
Support Services:	
Instructional Staff	5,771
Board of Education	324
Operation and Maintenance of Plant	3,080
Pupil Transportation	34,223
Operation of Non-Instructional Services	1,169
Operation of Food Services	3,746
Extracurricular	<u>396,179</u>
Total Depreciation Expense	<u><u>\$815,713</u></u>

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 10 – Fund Balances

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

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

Fund Balances	General	Permanent Improvement	Nonmajor Governmental	Total
<i>Restricted for</i>				
Capital Projects	\$0	\$128,692	\$152,589	\$281,281
Classroom Facilities Maintenance	0	0	17,220	17,220
Food Service Operations	0	0	165,976	165,976
Extracurricular Activities	0	0	44,927	44,927
Other Purposes	0	0	16,633	16,633
<i>Total Restricted</i>	0	128,692	397,345	526,037
<i>Assigned to</i>				
Encumbrances	210,344	0	0	210,344
<i>Unassigned (Deficit)</i>	217,354	0	(95,509)	121,845
<i>Total Fund Balances (Deficit)</i>	\$427,698	\$128,692	\$301,836	\$858,226

Note 11 – Long-Term Obligations

The changes in the District’s long-term obligations during fiscal year 2015 were as follows:

	Balance at 06/30/14	Increases	Decreases	Balance at 06/30/15	Due in One Year
<u>Long Term Obligations:</u>					
Energy Conservation Note	\$0	\$541,840	\$0	\$541,840	29,000
Capital Lease Payable	887,527	0	(341,174)	546,353	359,461
Compensated absences	383,800	15,811	(36,188)	363,423	27,392
<i>Total Before Net Pension Liability</i>	1,271,327	557,651	(377,362)	1,451,616	415,853
<u>Net Pension Liability:</u>					
STRS	11,860,723	0	(1,903,715)	9,957,008	0
SERS	2,363,627	0	(352,053)	2,011,574	0
<i>Total Net Pension Liability</i>	14,224,350	0	(2,255,768)	11,968,582	0
Total Long-Term Obligations	\$15,495,677	\$557,651	(\$2,633,130)	\$13,420,198	\$415,853

During the fiscal year, the District entered into a House Bill 264 Energy Conservation Note. The Note was issued for \$541,840 at an interest rate of 2.90 percent and will mature on December 1, 2029. The proceeds were used to make various energy improvements to District facilities. \$226,600, or 42 percent of this loan relates to capital asset acquisitions.

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The District pays obligations related to employee compensation from the fund benefitting from their service.

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the District.

In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The effects of these debt limitations at June 30, 2015 are a legal voted debt margin of \$10,673,719, a legal unvoted debt margin of \$124,617, and a legal energy conservation debt margin of \$579,716.

Principal requirements to retire general obligation debt outstanding at June 30, 2015, are as follows:

Fiscal Year Ending June 30,	Energy Conservation Note		
	Principal	Interest	Total
2016	\$29,000	\$15,293	\$44,293
2017	30,000	14,437	44,437
2018	31,000	13,553	44,553
2019	32,000	12,640	44,640
2020	33,000	11,696	44,696
2021 - 2025	180,000	43,332	223,332
2026 - 2030	206,840	15,393	222,233
Total	<u>\$541,840</u>	<u>\$126,344</u>	<u>\$668,184</u>

Note 12 – Capitalized Leases

During fiscal year 2007, the District entered into a lease agreement with All Points Public Funding LLC for the construction of a new stadium. At the time the District entered into this lease, the stadium had not 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 Discretion as the project progressed. The capital assets 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 governmental activities statement of net position of the District and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The following is a schedule of the future long term minimum lease payments required under the capital lease obligation and the present value of the future minimum lease payments as of June 30, 2015:

<u>Fiscal Year Ending June 30,</u>		
2016		383,671
2017		191,836
Total Minimum Lease Payments		<u>575,507</u>
Less: Amount Representing Interest		<u>(29,154)</u>
Present Value of Minimum Lease		<u><u>\$546,353</u></u>

Note 13 – Defined Benefits Pension Plans

A. Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had an effect on beginning net position as reported at June 30, 2014 (see Note 3). The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions - between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred payment basis - as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

GASB 68 assumes the liability is solely the obligation of employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. A liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

B. School Employees Retirement System

Plan Description - District non-teaching employees participate in the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained on SERS' website at www.ohsers.org, under *Employers/Audit Resources*.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or Before August 1, 2017*	Eligible to Retire on or After August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For fiscal year ending June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund. The District's contractually required contribution to SERS was \$230,282 for the fiscal year ended June 30, 2015. Of this amount \$35,368 was reported as an intergovernmental payable.

C. State Teachers Retirement System

Plan Description - District licensed teachers and other faculty members participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$562,960 for the fiscal year ended June 30, 2015. Of this amount \$100,824 was reported as an intergovernmental payable.

D. Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$2,011,574	\$9,957,008	\$11,968,582
Proportion of the Net Pension Liability	0.03974700%	0.04093582%	
Pension Expense	\$118,297	\$460,005	\$578,302

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$17,121	\$95,858	\$112,979
District contributions subsequent to the measurement date	230,282	562,960	793,242
Total Deferred Outflows of Resources	\$247,403	\$658,818	\$906,221
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$326,484	\$1,842,084	\$2,168,568

\$793,242 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$77,341)	(\$436,557)	(\$513,898)
2017	(77,341)	(436,557)	(513,898)
2018	(77,341)	(436,556)	(513,897)
2019	(77,340)	(436,556)	(513,896)
Total	(\$309,363)	(\$1,746,226)	(\$2,055,589)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 Percent
Future Salary Increases, Including Inflation	4.00 Percent to 22 Percent
COLA or Ad hoc COLA	3 Percent
Investment Rate of Return	7.75 Percent Net of Investments Expense, Including Inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
U.S. Stocks	22.50	5.00
Non-U.S. Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's Proportionate Share of the Net Pension Liability	\$2,869,917	\$2,011,573	\$1,289,632

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 Percent
Projected Salary Increases	2.75 Percent at Age 70 to 12.25 Percent at Age 20
Investment Rate of Return	7.75 Percent, Net of Investment Expenses
Cost of Living Adjustments (COLA)	2% Simple Applied as Follows: For Members Retiring Before August 1, 2013, 2% per Year, For Members Retiring August 1, 2013, or later, 2% COLA paid on Fifth Anniversary of Retirement Date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Fixed Income	18.00	3.75
Alternatives	14.00	8.00
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's Proportionate Share of the Net Pension Liability	\$14,254,543	\$9,957,008	\$6,322,740

Note 14 – Post-employment Benefits

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the District's surcharge obligation was \$21,883.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$14,327, \$21,123 and \$21,685, respectively. For fiscal year 2015, 68 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$43,841, and \$46,059 respectively. The full amount has been contributed for fiscal years 2014 and 2013.

Note 15 – Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-quarter 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 days accrued above and beyond the first 144 days up to the maximum accumulation. Classified employees receive payment for 25 percent of 135 accrued sick leave days plus 10 percent of all sick days accrued above and beyond the first 135 days up to the maximum accumulation.

B. Life Insurance

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

Note 16 – Statutory Reserves

The 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.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2014	\$0
Current Year Set-Aside Requirement	198,844
Current Year Offsets	<u>(712,928)</u>
Total	<u><u>(\$514,084)</u></u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>
Cash balance as of June 30, 2015	<u><u>\$0</u></u>

Although the District had qualifying disbursements 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 for future years. This negative balance is therefore not presented as being carried forward to future years.

Note 17 - Risk Management

A. General Insurance

The 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 2015, the District has property and liability coverage as follows:

<u>Coverage</u>	<u>Amount</u>	<u>Deductible</u>
Building/Contents Property	\$54,434,682	\$10,000
Boiler and Machinery	5,000,000	500
Crime Insurance	25,000	500
Automobile Liability	1,000,000	0
Uninsured Motorists	1,000,000	0
General Liability	1,000,000	0
Education Liability:		
Per occurrence	1,000,000	0
Total per year	2,000,000	0
School Board Errors and Omissions	1,000,000	0
Umbrella	3,000,000	0

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

B. Fidelity Bond

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

C. Workers' Compensation

The District pays the State Workers' Compensation system, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The 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 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 District were to withdraw from the pool. If the reserve would not cover such claims, the District would be liable for any costs above the reserve.

Note 18 – Related Organizations

The East Palestine Public Library (the "Library") is a related organization to the 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 District. The 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 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 District during the fiscal year 2015.

The East Palestine City School District Education Foundation is also associated with the 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 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 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.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 19 – Jointly Governed Organizations

A. Area Cooperative Computerized Educational Service System/ACCESS Assembly

The Area Cooperative Computerized Educational Service System/ACCESS Assembly (ACCESS) is a consortium of participating school districts in Mahoning and Columbiana Counties, educational service centers, non-public schools and Special Education Regional Resource Centers.

The jointly governed organization was formed for the purpose of utilizing computers and other electronic equipment for administrative and instructional functions among member districts. These include educational management information system services, fiscal services, library services, network services and student services.

ACCESS is governed by an Assembly, which makes all decisions regarding programs, fees, budget and policy. The Assembly is composed of the Superintendent of each of the member districts. Assembly members may designate proxy attendees at meetings for voting purposes. The Assembly meets twice per year, once in November and once in May. Budgets and fees are discussed at the fall meeting, while the Board of Directors are chosen at the spring meeting.

While the Assembly has overall governance for ACCESS, the Board of Directors is selected to make the majority of the day to day operational decisions. Everything from equipment purchases, contracts, personnel action and financial oversight is handled by the Board. The Board is made up of two superintendents each from both Mahoning and Columbiana counties, and the superintendents from both the Mahoning County and Columbiana County Educational Service Centers. The ACCESS Executive Director and the Treasurer are also part of the Board of Directors, but are non-voting members.

All ACCESS revenues are generated from charges for services and State funding. Each of the members supports the ACCESS Assembly based upon a per pupil charge. The District paid \$38,115 to ACCESS during fiscal year 2015. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 220, Youngstown, Ohio, 44512.

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 District's continued participation and no measurable equity interest exists.

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

Note 20 - Contingencies

A. Grants

The 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 agreement and are subject to audit by the grantor agencies. Any

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 District at June 30, 2015.

B. Litigation

The District is not currently party any claims or legal proceedings that would, in the District's opinion, have a material effect on the basic financial statements.

C. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$234,758 in the general fund, \$66,888 in the permanent improvement fund and \$74,683 in the non-major governmental funds.

D. School District Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

Note 21 - Interfund Balances

The interfund receivable/payable balances consisted of the following at June 30, 2015, as reported on the fund financial statements:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Fund:		
General	\$44,146	\$0
Non-major Governmental Funds:		
High Schools at Work	0	5,000
Improving Teacher Quality	0	35,000
Miscellaneous Federal Grants	0	4,146
Total	<u>\$44,146</u>	<u>\$44,146</u>

The primary purpose of interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid in fiscal year 2015 once the anticipated revenue is received.

East Palestine City School District

Columbiana County, Ohio

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio (SERS)

Last Two Fiscal Years (1)

	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.03974700%	0.03974700%
School District's Proportionate Share of the Net Pension Liability	\$2,011,574	\$2,363,627
School District's Covered-Employee Payroll	\$1,161,522	\$1,236,019
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	173.18%	191.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

East Palestine City School District

Columbiana County, Ohio

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio (STRS)

Last Two Fiscal Years (1)

	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.040935820%	0.040935820%
School District's Proportionate Share of the Net Pension Liability	\$9,957,008	\$11,860,723
School District's Covered-Employee Payroll	\$4,749,946	\$4,605,946
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	209.62%	257.51%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

East Palestine City School District

Columbiana County, Ohio

*Required Supplementary Information
Schedule of School District Contributions
School Employees Retirement System of Ohio (SERS)
Last Three Fiscal Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$230,282	\$160,987	\$171,065
Contributions in Relation to the Contractually Required Contribution	(\$230,282)	(\$160,987)	(\$171,065)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$1,747,208	\$1,161,522	\$1,236,019
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%

(1) Information prior to 2013 available upon request.

East Palestine City School District

Columbiana County, Ohio

*Required Supplementary Information
Schedule of School District Contributions
State Teachers Retirement System of Ohio (STRS)
Last Three Fiscal Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$562,960	\$617,493	\$598,773
Contributions in Relation to the Contractually Required Contribution	(\$562,960)	(\$617,493)	(\$598,773)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$4,021,143	\$4,749,946	\$4,605,946
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%

(1) Information prior to 2013 available upon request.

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass Through Grantor / Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through The Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Breakfast Program	N/A	10.553	\$ 68,151	\$ 68,151
National School Lunch Program	N/A	10.555	261,407	261,407
Cash Assistance			329,558	329,558
Non-Cash Assistance (Food Distribution)	N/A	10.555	35,019	35,019
Total Child Nutrition Cluster			<u>364,577</u>	<u>364,577</u>
Total U.S. Department of Agriculture			<u>364,577</u>	<u>364,577</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through The Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2015	84.010	330,162	316,452
Title I Grants to Local Educational Agencies	2014	84.010	66,808	75,280
Total Title I Grants to Local Educational Agencies			<u>396,970</u>	<u>391,732</u>
Special Education Grants to States	2015	84.027	226,792	225,892
Special Education Grants to States	2014	84.027	-	437
Special Education Rural		84.358	6,642	5,348
Total Special Education Grants to States			<u>233,434</u>	<u>231,677</u>
Title II-A Improving Teacher Quality State Grants	2015	84.367	34,524	34,126
Title II-A Improving Teacher Quality State Grants	2014	84.367	39,231	39,604
Total Title II-A Improving Teacher Quality State Grants			<u>73,755</u>	<u>73,730</u>
Total – U.S. Department of Education			<u>704,159</u>	<u>697,139</u>
Total Federal Financial Assistance			<u>\$ 1,068,736</u>	<u>\$ 1,061,716</u>

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Note A – Significant Accounting Policies

The accompanying Federal Awards Receipts and Expenditures Schedule (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 comingles 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

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.



428 Second St.
Marietta, OH 45750
740.373.0056

1035 Murdoch Ave.
Parkersburg, WV 26101
304.422.2203

104 South Sugar St.
St. Clairsville, OH 43950
740.695.1569

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

February 1, 2016

East Palestine City School District
Columbiana County
200 West 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 the **East Palestine City School District**, Columbiana County (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 1, 2016, wherein we noted the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Report for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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 opinions 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.



... "bringing more to the table"

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

• Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
• Association of Certified Anti - Money Laundering Specialists •



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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 1, 2016.

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.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio



428 Second St.
Marietta, OH 45750
740.373.0056

1035 Murdoch Ave.
Parkersburg, WV 26101
304.422.2203

104 South Sugar St.
St. Clairsville, OH 43950
740.695.1569

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

February 1, 2016

East Palestine City School District
Columbiana County
200 West 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 programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of audit findings identifies the District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for 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 programs. However, our audit does not provide a legal determination of the District's compliance.



... "bringing more to the table"

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

• Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •

• Association of Certified Anti - Money Laundering Specialists •



Opinion on Each 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 programs for the year ended June 30, 2015.

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.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

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

SCHEDULE OF AUDIT FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

This page intentionally left blank.



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
MAY 5, 2016**