

**EAST PALESTINE
CITY SCHOOL DISTRICT**

COLUMBIANA COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

(AUDITED)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2005

RICK ELLIS, TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the East Palestine City School District, Columbiana County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 27, 2006

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EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County (the "District") as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the East Palestine City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the beginning net assets of the governmental activities have been restated due to errors and omissions reported in capital assets at June 30, 2004. In addition, fund balances were restated due to accrued interest erroneously being reported as a fund expense in fiscal year 2004, which is described in more detail in Note 3.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Palestine City School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the East Palestine City School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
January 4, 2006

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The management's discussion and analysis of the East Palestine City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- General Revenues accounted for \$9.8 million in revenue or 80% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2.4 million or 20% of total revenues of \$12.2 million.
- Total program expenses were \$12.7 million.
- Net assets of governmental activities decreased \$426,793, which represents a 2% decrease from 2004.
- Outstanding note and bonded debt increased from \$4.1 million to \$6.2 through the issue of new debt.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the School District as a Whole (Continued)

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

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

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

- Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the debt service fund and the classroom facilities capital projects fund.

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities	
	2005	Restated 2004
Assets		
Current and Other Assets	\$ 8,543,316	\$ 9,906,760
Capital Assets	23,839,616	22,484,164
Total Assets	32,382,932	32,390,924
Liabilities		
Long-Term Liabilities	6,778,697	4,816,992
Other Liabilities	3,910,719	5,453,623
Total Liabilities	10,689,416	10,270,615
Net Assets		
Invested in Capital Assets Net of Debt	17,566,599	18,248,696
Restricted	4,698,155	4,265,343
Unrestricted (Deficit)	(571,238)	(393,730)
Total Net Assets	\$ 21,693,516	\$ 22,120,309

Total governmental assets decreased by \$426,793. An increase of approximately \$1.4 million in total capital assets reflects additional capital outlay necessary to complete the building construction projects. Total governmental liabilities increased by \$418,801. This increase was primarily the result of new debt.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The School District as a Whole (Continued)

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

(Table 2)
Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 785,760	\$ 819,031
Operating and Capital Grants	1,628,494	1,230,947
<i>General Revenue:</i>		
Property Taxes	3,334,344	3,158,530
Grants and Entitlements	6,401,564	5,734,834
Other	81,897	145,089
<i>Total Revenues</i>	12,232,059	11,088,431
Program Expenses		
Instruction	6,266,492	5,829,547
Support Services	5,417,475	5,811,642
Operation of Non-Instructional	457,388	516,700
Extracurricular Activities	352,762	390,652
Interest and Fiscal Charges	164,735	109,216
<i>Total Expenses</i>	12,658,852	12,657,757
Increase (Decrease) in Net Assets	\$ (426,793)	\$ (1,569,326)

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$12.2 million and expenditures of \$12.7 million.

(Table 3)
Governmental Activities
Cost of Services

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,266,492	\$ 4,916,629	\$ 5,829,547	\$ 5,000,731
Support Services:				
Pupil and Instructional Staff	1,135,874	1,019,974	1,175,488	1,004,410
Board of Education, Administration, Fiscal and Business	1,761,569	1,526,232	1,685,398	1,471,024
Operation and Maintenance of Plant	1,917,115	1,895,018	2,409,091	2,293,520
Pupil Transportation	602,917	602,917	541,665	505,863
Operation of Non-Instructional	457,388	(37,401)	516,700	13,341
Extracurricular Activities	352,762	156,494	390,652	209,674
Interest and Fiscal Charges	164,735	164,735	109,216	109,216
Total Expenses	\$ 12,658,852	\$ 10,244,598	\$ 12,657,757	\$ 10,607,779

Instruction and student support services comprise 91% of governmental program expenses. Interest/fiscal charges were 1%. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of facilities accounts for 8% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is a primary support for East Palestine City School District students.

East Palestine City School District
Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 (Unaudited)

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2005, the School District did modify its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$9,527,091, under the original budget estimates of \$11,202,045. Of this approximate \$1,674,954 decrease, most was attributable to decreased intergovernmental revenue.

Final appropriations of \$9.7 million were \$282,159 higher than the \$9.4 million in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$24 million invested in land, land improvements, buildings and building improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared with 2004.

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

	Governmental Activities	
	2005	Restated 2004
Land	\$ 475,814	\$ 475,814
Land Improvements	0	1,749
Buildings and Building Improvements	22,960,994	14,038,435
Furniture and Equipment	202,730	211,361
Vehicles	200,078	260,036
Construction in Progress	0	7,496,769
Totals	\$ 23,839,616	\$ 22,484,164

The \$1.3 million increase in capital assets was attributable to the building of a new middle school and high school.

East Palestine City School District
Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 (Unaudited)

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2005, this amounted to \$207,468 for each set aside. The School District had qualifying disbursements or offsets exceeding these requirements for capital improvements. The School District has budgeted to meet these requirements.

Debt

At June 30, 2005, the School District had \$6,190,934 in bonds outstanding with \$6,145,640 due within one year. During fiscal year 2005, \$4,008,258 of bonds were retired. The School District reissued \$6,093,220 of bond anticipation notes during fiscal year 2005. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2005	Governmental Activities 2004
General Obligation Bonds	\$ 0	\$ 65,000
Energy Conservation Bonds	97,715	143,972
Bond Anticipation Notes	6,093,220	3,897,000
Totals	\$ 6,190,935	\$ 4,105,972

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Current Issues

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

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26% of revenues for governmental activities for the East Palestine City School District in fiscal year 2005.

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

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

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

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

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

Contacting the School District's Financial Management

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

East Palestine City School District

Statement of Net Assets

June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,571,311
Cash and Cash Equivalents:	
In Segregated Accounts	264,201
With Fiscal Agents	311,627
Investments in Segregated Accounts	508,138
Receivables:	
Taxes	2,738,638
Accounts	11,209
Accrued Interest	1,813
Intergovernmental	132,379
Inventory Held For Resale	4,000
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets (Net)	23,363,802
<i>Total Assets</i>	<u>32,382,932</u>
Liabilities	
Accounts Payable	145,045
Contracts Payable	68,211
Accrued Wages and Benefits	898,363
Compensated Absences Payable	52,735
Vacation Payable	22,576
Intergovernmental Payable	260,708
Deferred Revenue	2,239,470
Accrued Interest Payable	142,185
Claims Payable	81,426
Long Term Liabilities:	
Due Within One Year	6,194,421
Due In More Than One Year	584,276
<i>Total Liabilities</i>	<u>10,689,416</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	17,566,599
Restricted for:	
Capital Projects	489,854
Debt Service	3,617,663
Other Purposes	530,879
Set Asides	59,759
Unrestricted	(571,238)
<i>Total Net Assets</i>	<u>\$ 21,693,516</u>

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Current:					
Instruction:					
Regular	\$ 5,203,618	\$ 369,474	\$ 205,089	\$ 52,968	\$ (4,576,087)
Special	998,330	0	706,263	0	(292,067)
Vocational	63,242	0	15,419	0	(47,823)
Adult continuing	1,302	650	0	0	(652)
Support services:					
Pupils	749,569	0	101,975	0	(647,594)
Instructional staff	386,305	0	13,925	0	(372,380)
Board of education	71,414	0	0	0	(71,414)
Administration	936,326	0	235,337	0	(700,989)
Fiscal	266,066	0	0	0	(266,066)
Business	487,763	0	0	0	(487,763)
Operation and maintenance of plant	1,917,115	0	22,097	0	(1,895,018)
Pupil transportation	602,917	0	0	0	(602,917)
Operation of non-instructional services:					
Food Service Operations	451,088	229,093	261,633	0	39,638
Community Services	6,300	0	4,063	0	(2,237)
Extracurricular activities	352,762	186,543	9,725	0	(156,494)
Debt service:					
Interest and fiscal charges	164,735	0	0	0	(164,735)
Totals	\$ 12,658,852	\$ 785,760	\$ 1,575,526	\$ 52,968	(10,244,598)

General Revenues

Property Taxes Levied for:

General Purposes	1,951,798
Debt Service	861,542
Capital Outlay	521,004

Grants and Entitlements not Restricted to Specific Programs	6,401,564
Investment Earnings	53,023
Miscellaneous	28,874

Total General Revenues 9,817,805

Change in Net Assets (426,793)

Net Assets Beginning of Year Restated 22,120,309

Net Assets End of Year \$ 21,693,516

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Bond Retirement	Classroom Facilities
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 446,250	\$ 3,567,373	\$ 336,076
Cash and Cash Equivalents:			
In Segregated Accounts	0	0	0
With Fiscal Agents	144,560	0	0
Investments in Segregated Accounts	0	0	0
Receivables:			
Taxes	1,716,031	637,281	0
Accounts	10,893	0	0
Interfund	54,719	0	0
Intergovernmental	0	0	0
Prepaid	1,327	0	0
Inventory Held For Resale	0	0	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	81,499	0	0
Total Assets	<u>\$ 2,455,279</u>	<u>\$ 4,204,654</u>	<u>\$ 336,076</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 45,804	\$ 0	\$ 11,629
Contracts Payable	0	0	68,211
Accrued Wages and Benefits	817,127	0	0
Compensated Absences Payable	52,735	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	259,508	0	0
Deferred Revenue	1,656,739	615,262	0
Total Liabilities	<u>2,831,913</u>	<u>615,262</u>	<u>79,840</u>
Fund Balances			
Fund Balance:			
Reserved for Encumbrances	69,916	0	2,435
Reserved for Bus Purchase Allowance	21,740	0	0
Reserved for Inventory	0	0	0
Reserved for Prepaid Items	1,327	0	0
Reserved for Property Taxes	59,292	22,019	0
Reserved to Textbook/Instructional Materials	59,759	0	0
Unreserved, Undesignated, Unreserved Reported in:			
General Fund	(588,668)	0	0
Special Revenue Funds	0	0	0
Debt Service Fund	0	3,567,373	0
Capital Projects Funds	0	0	253,801
Total Fund Balances	<u>(376,634)</u>	<u>3,589,392</u>	<u>256,236</u>
Total Liabilities and Fund Balances	<u>\$ 2,455,279</u>	<u>\$ 4,204,654</u>	<u>\$ 336,076</u>

See accompanying notes and are an integral part of the basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 140,113	\$ 4,489,812
264,201	264,201
0	144,560
508,138	508,138
385,326	2,738,638
316	11,209
0	54,719
132,379	132,379
486	1,813
4,000	4,000
0	81,499
\$ 1,434,959	\$ 8,430,968
\$ 87,612	\$ 145,045
0	68,211
81,236	898,363
0	52,735
54,719	54,719
1,200	260,708
434,055	2,706,056
658,822	4,185,837
49,419	121,770
0	21,740
4,000	4,000
486	1,813
13,314	94,625
0	59,759
0	(588,668)
616,987	616,987
0	3,567,373
91,931	345,732
776,137	4,245,131
\$ 1,434,959	\$ 8,430,968

East Palestine City School District
Balance Sheet
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances	\$	4,245,131
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		23,839,616
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 62,043	
Delinquent Property Taxes	404,543	466,586
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		85,641
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.		(142,185)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Vacation	(22,576)	
General Obligation Bonds	(97,715)	
Bond Anticipation Notes	(6,093,220)	
Compensated Absences	(505,680)	
Capital Leases Payable	(82,082)	(6,801,273)
Net Assets of Governmental Activities	\$	21,693,516

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,055,978	\$ 767,405	\$ 0	\$ 464,084	\$ 3,287,467
Intergovernmental	6,729,774	96,896	0	1,146,204	7,972,874
Interest	0	0	7,402	45,621	53,023
Tuition and fees	369,474	0	0	650	370,124
Extracurricular activities	0	0	0	186,543	186,543
Charges for services	0	0	0	229,093	229,093
Contributions and Donations	3,070	0	0	21,959	25,029
Miscellaneous	21,435	0	0	7,439	28,874
<i>Total Revenues</i>	<u>9,179,731</u>	<u>864,301</u>	<u>7,402</u>	<u>2,101,593</u>	<u>12,153,027</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,355,129	0	0	132,543	4,487,672
Special	447,782	0	0	559,672	1,007,454
Vocational	62,560	0	0	0	62,560
Adult continuing	0	0	0	1,302	1,302
Support services:					
Pupils	609,844	0	0	122,689	732,533
Instructional staff	324,076	0	0	58,021	382,097
Board of Education	71,968	0	0	0	71,968
Administration	830,335	0	3,001	69,617	902,953
Fiscal	228,773	28,647	0	11,388	268,808
Business	487,763	0	0	0	487,763
Operation and maintenance of plant	1,002,613	0	4,001	113,154	1,119,768
Pupil transportation	479,765	0	0	58,761	538,526
Operation of non-instructional services:					
Food Service Operations	0	0	0	447,101	447,101
Community Services	1,000	0	0	5,300	6,300
Extracurricular activities	176,611	0	0	188,318	364,929
Capital outlay	0	0	2,621,742	201,672	2,823,414
Debt service:					
Principal retirement	47,412	4,008,258	0	0	4,055,670
Interest and fiscal charges	3,074	90,705	0	0	93,779
<i>Total Expenditures</i>	<u>9,128,705</u>	<u>4,127,610</u>	<u>2,628,744</u>	<u>1,969,538</u>	<u>17,854,597</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>51,026</u>	<u>(3,263,309)</u>	<u>(2,621,342)</u>	<u>132,055</u>	<u>(5,701,570)</u>
Other Financing Sources (Uses):					
Proceeds of notes	0	6,093,220	0	0	6,093,220
Transfers in	0	0	2,262,735	86,023	2,348,758
Transfers out	(86,023)	0	0	(2,262,735)	(2,348,758)
<i>Total Financing Sources and (Uses)</i>	<u>(86,023)</u>	<u>6,093,220</u>	<u>2,262,735</u>	<u>(2,176,712)</u>	<u>6,093,220</u>
<i>Net Change in Fund Balance</i>	(34,997)	2,829,911	(358,607)	(2,044,657)	391,650
<i>Fund balance at beginning of year restated</i>	(341,637)	759,481	614,843	2,819,264	3,851,951
<i>Increase (decrease) in reserve for inventory</i>	0	0	0	1,530	1,530
<i>Fund balance at end of year</i>	<u>\$ (376,634)</u>	<u>\$ 3,589,392</u>	<u>\$ 256,236</u>	<u>\$ 776,137</u>	<u>\$ 4,245,131</u>

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds	\$	391,650
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	\$ 2,027,722	
Current Year Depreciation	<u>(672,270)</u>	1,355,452
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		
Grants	32,155	
Delinquent Property Taxes	<u>46,877</u>	79,032
 Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal	4,008,258	
Capital Leases	<u>47,412</u>	4,055,670
 In the statement of activities, interest is accrued on outstanding debt, where: in governmental funds, an interest expenditure is reported when due		
		(70,956)
 Other financing sources in the governmental funds that increase long-term in the statement of net assets are not reported as revenues in the statement of activities.		
Bond Principal		(6,093,220)
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Accrued Vacation	(22,576)	
Compensated Absences	75,845	
Pension Obligation	138,667	
Change in Inventory	<u>1,530</u>	193,466
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>(337,887)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(426,793)</u></u>

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,141,048	\$ 2,166,569	\$ 2,080,505	\$ (86,064)
Intergovernmental	8,316,414	6,734,522	6,729,774	(4,748)
Tuition and Fees	443,122	380,000	358,581	(21,419)
Contributions and Donations	3,794	4,000	3,070	(930)
Miscellaneous	94,232	22,000	76,254	54,254
<i>Total Revenues</i>	<u>10,998,610</u>	<u>9,307,091</u>	<u>9,248,184</u>	<u>(58,907)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,300,908	4,447,045	4,348,764	98,281
Special	452,256	456,391	442,500	13,891
Vocational	40,411	67,223	63,497	3,726
Support Services:				
Pupils	614,438	611,793	578,515	33,278
Instructional Staff	389,712	356,450	328,601	27,849
Board of Education	86,245	78,913	72,516	6,397
Administration	810,686	847,227	835,669	11,558
Fiscal	212,590	228,523	225,032	3,491
Business	576,333	601,133	585,159	15,974
Operation and Maintenance of Plant	1,090,218	1,066,854	975,152	91,702
Pupil Transportation	414,754	504,607	444,318	60,289
Operation of Non-Instructional Services:				
Community Services	2,000	2,000	1,000	1,000
Extracurricular Activities:				
Academic Oriented Activities	62,551	67,102	66,320	782
Sport Oriented Activities	125,000	125,000	110,647	14,353
<i>Total Expenditures</i>	<u>9,178,102</u>	<u>9,460,261</u>	<u>9,077,690</u>	<u>382,571</u>
Excess of Revenues Over (Under) Expenditures	<u>1,820,508</u>	<u>(153,170)</u>	<u>170,494</u>	<u>323,664</u>
Other Financing Sources (Uses):				
Other Financing Uses	(2,500)	(2,500)	(1,000)	1,500
Advances Out	(45,000)	(45,000)	(54,719)	(9,719)
Transfers In	203,435	220,000	207,468	(12,532)
Transfers Out	(220,000)	(220,000)	(293,491)	(73,491)
<i>Total Other Financing Sources (Uses)</i>	<u>(64,065)</u>	<u>(47,500)</u>	<u>(141,742)</u>	<u>(94,242)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>1,756,443</u>	<u>(200,670)</u>	<u>28,752</u>	<u>229,422</u>
<i>Fund Balance at Beginning of Year</i>	<u>508,978</u>	<u>508,978</u>	<u>508,978</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>56,462</u>	<u>56,462</u>	<u>56,462</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,321,883</u>	<u>\$ 364,770</u>	<u>\$ 594,192</u>	<u>\$ 229,422</u>

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2005

	Governmental Activities Internal Service Fund
Assets	
Cash and Cash with Fiscal Agents	\$ 167,067
<i>Total Assets</i>	<u>167,067</u>
Liabilities	
Claims Payable	<u>81,426</u>
<i>Total Liabilities</i>	<u>81,426</u>
Net Assets	
Unrestricted	<u>85,641</u>
<i>Total Net Assets</i>	<u><u>\$ 85,641</u></u>

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for services	1,164,640
<i>Total Operating Revenues</i>	1,164,640
Operating Expenses:	
Fringe benefits	14,081
Purchased services	79,850
Claims	1,415,097
Other	5
<i>Total Operating Expenses</i>	1,509,033
Operating income (loss)	(344,393)
Non-Operating Revenues (Expenses):	
Interest	6,506
<i>Total Non-Operating Revenues (Expenses)</i>	6,506
<i>Change in Net Assets</i>	(337,887)
<i>Net Assets, Beginning of Year</i>	423,528
<i>Net Assets, End of Year</i>	\$ 85,641

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 1,164,640
Cash Paid for Goods and Services	(79,850)
Cash Paid to Employees	(14,081)
Cash Paid for Claims	(1,456,352)
Other Cash Payments	<u>(5)</u>
<i>Net Cash (Used For) Operating Activities</i>	<u>(385,648)</u>
Cash Flows From Investing Activities:	
Interest on Investments	<u>6,506</u>
<i>Net Cash Provided By Investing Activities</i>	<u>6,506</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(379,142)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>546,209</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 167,067</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Loss	\$ (344,393)
Adjustments:	
Increase (Decrease) in Liabilities	
Claims Payable	<u>(41,255)</u>
<i>Total Adjustments</i>	<u>(41,255)</u>
<i>Net Cash (Used For) Operating Activities</i>	<u>\$ (385,648)</u>

See accompanying notes and are an integral part of the basic financial statements.

East Palestine City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	\$ 38,359
<i>Total Assets</i>	<u>\$ 38,359</u>
Liabilities	
Accounts Payable	\$ 2,949
Due to Students	35,410
<i>Total Liabilities</i>	<u>\$ 38,359</u>

See accompanying notes and are an integral part of the basic financial statements.

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EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

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

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. Average daily membership on, or as of October 1, 2004, was 1,415. The District employs 88 certificated and 40 non-certificated employees.

The reporting entity is required to be comprised of the primary government, component units and other organizations that are included to ensure that the basic 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; or (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 Area Cooperative Computerized Educational Service System (ACCESS), and the Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 17. The East Palestine Public Library is a related organization of the District, which is presented in Note 16 to the basic financial statements.

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 accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the District at 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 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

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

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

Classroom Facilities Capital Projects Fund The classroom facilities capital projects fund accounts for financial resources to be used in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of major capital facilities.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the District's proprietary fund type:

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

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: Summary of Significant Accounting Policies (Continued)

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange 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 nonexchange transactions must also be available before it can be recognized.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2: Summary of Significant Accounting Policies (Continued)

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled. Monies for all funds, including proprietary funds, 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 cash equivalents" and "investments" on the balance sheet.

During fiscal year 2005, investments were limited to securities and overnight sweep accounts.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. The District's Board Resolution does not provide any interest allocation to the General Fund. Total interest revenue during fiscal year 2005 amounted to \$53,023.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Restricted Assets

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

I. Capital Assets

General capital assets are those assets that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The 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.

EAST PALESTINE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	20 - 50 Years
Improvements Other Than Building:	20 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	10 Years

J. Interfund Balances

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

K. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for 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.

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, long-term bond anticipation notes, and capital leases are recognized as a liability on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

N. Fund Balance Reserves

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

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

P. Interfund Activity

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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

Q. 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 2005.

R. Estimates

The preparation of financial statements in conformity with GAAP 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.

S. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. For all funds, the legal level of control was at the fund level. Budgetary modifications changing total fund appropriations may only be made by resolution of the Board of Education.

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Columbiana County Budget Commission for rate determination.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2: Summary of Significant Accounting Policies (Continued)

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures may not exceed appropriations at the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function levels of expenditures. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and does not constitute expenditures or liabilities. A reserve for encumbrances is not reported on government-wide financial statements.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3: Change in Accounting Principle & Restatement of Net Assets/Fund Balance

For fiscal year 2005, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures." GASB 40 establishes and modifies disclosures requirements related to investment risks: credit risk (including custodial credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. The implementation of GASB Statement 40 had no material effect on the District's financial statements.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as expenditures/expenses and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit, (OPEB), plans. The implementation of Technical Bulletin No. 2004-02 did not have a material effect on the fund balances of the major and nonmajor funds of the District as they were previously reported as of June 30, 2004.

The District's fund balances were restated due to accrued interest erroneously being reported as a fund expense in fiscal year 2004.

	Bond Retirement	Classroom Facilities	Other Governmental Building Fund
Fund Balance, June 30, 2004	\$ 700,321	\$ 611,857	\$ 775,501
Accrued Interest	59,160	2,986	9,083
Restated Fund Balance, July 1, 2004	<u>\$ 759,481</u>	<u>\$ 614,843</u>	<u>\$ 784,584</u>

The District's capital assets relating to the elementary, high school and middle school building had been understated. An adjustment to net assets was needed to account for this understatement.

	Previously Stated Balance at 6/30/04	Adjustments	Restated Balance at 7/1/04
Governmental Activities	<u>\$ 21,137,130</u>	<u>\$ 983,179</u>	<u>\$ 22,120,309</u>

Note 4: Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

EAST PALESTINE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005

Note 4: Budgetary Basis of Accounting (Continued)

2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

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

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
GAAP Basis	\$ (34,997)
Revenue accruals	68,453
Expenditure accruals	129,130
Other financing sources (uses)	(55,719)
Encumbrances	<u>(78,115)</u>
 Budgetary Basis	 <u><u>\$ 28,752</u></u>

Note 5: Accountability and Compliance

Fund balances/net assets at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ 376,634
Other Governmental Funds:	
Summer School	6,587
Title I VIB	<u>34,745</u>
 Total	 <u><u>\$ 417,966</u></u>

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

Contrary to Ohio Revised Code Section 5705.41(D) the District did not properly certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance for a portion of their 2005 expenditures.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 6: Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 6: Deposits and Investments (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During 2005, the District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the District's deposits was \$1,393,114. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, \$1,183,074 of the District's bank balance of \$1,635,616 was exposed to custodial risk as discussed above, while \$452,542 was covered by Federal Deposit Insurance Corporation.

EAST PALESTINE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005

Note 6: Deposits and Investments (Continued)

Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		<u>6 Months or Less</u>
Federal Home Loan Banks	\$ 248,076	\$ 248,076
Repurchase Agreement	<u>3,740,819</u>	<u>3,740,819</u>
Total	<u>\$ 3,988,895</u>	<u>\$ 3,988,895</u>

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

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

Concentration of Credit Risk. The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the District at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Federal Home Loan Banks	\$ 248,076	6.22%
Repurchase Agreement	<u>3,740,819</u>	<u>93.78%</u>
Total	<u>\$ 3,988,895</u>	<u>100.00%</u>

Cash Held by Fiscal Agent

The District participates in the Columbiana County Insurance Consortium for employee benefits. The bank balance at fiscal year end for the Employee Benefit Self-Insurance Fund was \$311,627. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Cash in Segregated Accounts

The 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 held in separate bank accounts.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

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, public utility and tangible personal property located in the District. Property tax revenue received during calendar year 2005 for real and public utility property taxes represent collections of calendar year 2004 taxes. Property tax payments received during calendar year 2005 for tangible personal property (other than public utility property) is for calendar year 2005 taxes.

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

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

2005 tangible personal property taxes are levied after April 1, 2004 on the values as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004		2005	
	Second-Half Collections		First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and other real estate	\$ 80,976,410	76%	\$ 93,463,930	78%
Commercial Industrial	11,062,800	10%	12,851,120	11%
Tangible Personal Property	<u>14,924,620</u>	<u>14%</u>	<u>13,206,730</u>	<u>11%</u>
Total Assessed Value	<u>\$ 106,963,830</u>	<u>100%</u>	<u>\$ 119,521,780</u>	<u>100%</u>
Tax rate per \$1,000 of assessed value		<u>\$ 33.60</u>		<u>\$ 33.30</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 7: Property Taxes (Continued)

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30, if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The 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, 2005 are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the District. The County Auditor periodically remits to the District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the District as an advance at June 30, 2005 was \$94,625.

Note 8: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2005 was as follows:

	Restated Balance at 06/30/04	Additions	Reductions	Balance at 06/30/05
<u>Governmental Activities:</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
Construction in progress	7,496,769	2,013,037	(9,509,806)	0
Total capital assets, not being depreciated	<u>7,972,583</u>	<u>2,013,037</u>	<u>(9,509,806)</u>	<u>475,814</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	277,160	0	0	277,160
Building and building improvements	16,645,427	9,509,806	0	26,155,233
Furniture and equipment	513,287	14,685	0	527,972
Vehicles	849,614	0	0	849,614
Total capital assets, being depreciated	<u>18,285,488</u>	<u>9,524,491</u>	<u>0</u>	<u>27,809,979</u>
Less accumulated depreciation:				
Land Improvements	(275,411)	(1,749)	0	(277,160)
Building and building improvements	(2,606,992)	(587,247)	0	(3,194,239)
Furniture and equipment	(301,926)	(23,316)	0	(325,242)
Vehicles	(589,578)	(59,958)	0	(649,536)
Total accumulated depreciation	<u>(3,773,907)</u>	<u>(672,270)</u>	<u>0</u>	<u>(4,446,177)</u>
Total capital assets being depreciated, net	<u>14,511,581</u>	<u>8,852,221</u>	<u>0</u>	<u>23,363,802</u>
Governmental activities capital assets, net	<u>\$ 22,484,164</u>	<u>\$ 10,865,258</u>	<u>\$ (9,509,806)</u>	<u>\$ 23,839,616</u>

EAST PALESTINE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005

Note 8: Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	583,907
Support Services:		
Administration		7,893
Pupil Transportation		59,298
Operation of Non-Instructional Services		5,517
Extracurricular Activities		15,655
		15,655
Total depreciation expense	\$	672,270

Note 9: Long-Term Obligations

The changes in the District's long-term obligations during the fiscal year 2005 were as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due in One Year
General Obligation Bonds, 10.875% interest rate, maturing December 2004	\$ 65,000	\$ 0	\$ (65,000)	\$ 0	\$ 0
Energy Conservation Bonds, 4.21% interest rate, maturing April 2007	143,973	0	(46,258)	97,715	52,420
Bond Anticipation Note, 2.38% interest rate, maturing September 2004	953,280	0	(953,280)	0	0
Bond Anticipation Note, 1.60% interest rate, maturing September 2004	2,943,720	6,093,220	(2,943,720)	6,093,220	6,093,220
Capital lease payable	129,494	0	(47,412)	82,082	48,781
Compensated absences payable	581,525	81,077	(156,922)	505,680	52,735
	\$ 4,816,992	\$ 6,174,297	\$ (4,212,592)	\$ 6,778,697	\$ 6,247,156

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

EAST PALESTINE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005

Note 9: Long-Term Obligations (Continued)

The District's overall debt margin was \$8,183,689 with an unvoted debt margin of \$119,522 at June 30, 2005.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2005 are as follows:

Years ending June 30,	Energy Conservation Bonds		Bond Anticipation Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 52,420	\$ 3,204	\$ 6,093,220	\$ 163,765	\$ 6,145,640	\$ 166,969
2007	45,295	974	0	0	45,295	974
	<u>\$ 97,715</u>	<u>\$ 4,178</u>	<u>\$ 6,093,220</u>	<u>\$ 163,765</u>	<u>\$ 6,190,935</u>	<u>\$ 167,943</u>

Note 10: Capitalized Leases – Lessee Disclosure

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

These assets have been capitalized in the governmental capital assets in the amount of \$145,000, the present value of the minimum lease payments at the inception of each lease. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005:

	Copiers
Year ending June 30, 2006	\$ 50,486
2007	33,658
Total	84,144
Less: amount representing interest	<u>2,062</u>
Present value of minimum lease payments	<u>\$ 82,082</u>

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 11: Defined Benefit Pension Plans

A. State Teachers Retirement System

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

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$613,224, \$636,696 and \$678,000, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$106,124, representing the unpaid contribution for fiscal year 2005, is recorded as a liability within the respective funds.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 11: Defined Benefit Pension Plans (Continued)

B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2002 were \$223,800, \$190,836 and \$174,612, respectively; 47 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$118,188, representing the unpaid contribution for fiscal year 2005, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 12: Postemployment Benefits

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$43,802 during fiscal 2005.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 12: Postemployment Benefits (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available) the balance in the fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease from 5.83 percent for fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. The expenses for health care at June 30, 2004 (the latest information available) were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$102,528 during the 2005 fiscal year.

Note 13: Other Employee Benefits

A. *Compensated Absences*

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

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

B. *Life Insurance*

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 14: Statutory Reserves

The District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbook Reserve	Capital Acquisition	Totals
Set-aside balance as of June 30, 2004	\$ 136,041	\$ 0	\$ 136,041
Current year set-aside requirement	207,468	207,468	414,936
Carryover from prior years	0	(1,354,000)	(1,354,000)
Current year offsets	0	(467,321)	(467,321)
Current year qualifying disbursements	<u>(285,634)</u>	<u>0</u>	<u>(285,634)</u>
Total	<u>\$ 57,875</u>	<u>\$ (1,613,853)</u>	<u>\$ (1,555,978)</u>
Balance carried forward to FY 2006	<u>\$ 57,875</u>	<u>\$ (1,354,000)</u>	
Cash balance carried forward to FY 2006	<u>\$ 57,875</u>	<u>\$ 0</u>	

Effective April 10, 2003, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used. The District does not have a BWC Refund set aside for the current year.

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

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for textbooks	\$ <u>57,875</u>
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EAST PALESTINE CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005

Note 15: 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 2005, the District has property and liability insurance coverage as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and contents - replacement coverage	\$ 500	\$ 24,356,000
Boiler and machinery	500	5,000,000
Crime insurance	0	5,000
Automobile liability	0	1,000,000
Uninsured motorists	0	1,000,000
General liability	0	1,000,000
Education liability:		
Per occurrence	0	2,000,000
Total per year	0	5,000,000

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

B. Fidelity Bond

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

C. Workers' Compensation

The 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 Ohio School Board Association Group Rating System, 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

Medical/surgical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of seven school districts within the county, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$81,426 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 "Accounting and Financial Reporting for Risk, Financing and Related Insurance Issues", as amended by GASB No. 30, "Risk Financial Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims be accrued at the estimated ultimate cost of settling claims. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in fund's claims liability for the fiscal years 2005 and 2004 are as follows:

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 15: Risk Management (Continued)

	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2005	\$ 122,681	\$ 1,415,097	\$ 1,456,352	\$ 81,426
2004	\$ 88,802	\$ 1,110,554	\$ 1,076,675	\$ 122,681

Note 16: 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 2005.

Note 17: Jointly Governed Organizations

A. Area Cooperative Computerized Education Service System (ACCESS)

ACCESS is a jointly governed organization comprised of 26 public school districts, 2 educational service centers, 20 non-public schools, and 2 special education regional resource centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The seven member board of governors consists of the two superintendents and one treasurer from each county (Columbiana and Mahoning). The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for ACCESS. The assembly exercises total control over operating of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing to: Mahoning County Educational Service Center, Treasurer’s Office, 2801 Market Street, Room 202, Youngstown, Ohio 44507-1693. The continued existence of ACCESS is not dependent upon the District’s continued participation and no measurable equity interest exists. The District paid \$31,529 for services provided during fiscal year 2005.

B. Columbiana County Career Center (the “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.

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 17: Jointly Governed Organizations (Continued)

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

Note 18: Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2005.

B. Litigation

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

Note 19: State School Funding

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

The Supreme Court relinquished jurisdiction over the case and directed “. . . Ohio General Assembly to enact a school funding scheme that is thorough and efficient . . .” The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Supplemental Data

EAST PALESTINE CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A), (B) Food Donation	10.550	N/A	\$ -	\$ 37,297	\$ -	\$ 37,297
(A), (C) School Breakfast Program	10.553	043927-LL-P4-2004	2,621		2,621	
(A), (C) School Breakfast Program	10.553	043927-LL-P4-2005	25,197		25,197	
(A), (C) National School Lunch	10.555	043927-LL-P4-2004	16,079		16,079	
(A), (C) National School Lunch	10.555	043927-LL-P4-2005	137,384		137,384	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>181,281</u>	<u>37,297</u>	<u>181,281</u>	<u>37,297</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	043927-C1-S1-2004	29,888		58,929	
Title I - Grants to Local Educational Agencies	84.010	043927-C1-S1-2005	296,967		261,615	
Total Title I			<u>326,855</u>		<u>320,544</u>	
Special Education Cluster:						
(E) Special Education: Grants to States	84.027	043927-6B-SF-2004	-		4,295	
(E) Special Education: Grants to States	84.027	043927-6B-SF-2005	256,216		296,324	
Total Special Education: Grants to States			<u>256,216</u>		<u>300,619</u>	
(E) Special Education: Preschool Grants	84.173	043927-PGS1-2005	10,894		10,894	
Total Special Education: Preschool Grants			<u>10,894</u>		<u>10,894</u>	
Total Special Education Cluster			<u>267,110</u>		<u>311,513</u>	
Safe and Drug-Free Schools	84.186	043927-DR-S1-2005	9,233		9,233	
Total Safe and Drug-Free Schools			<u>9,233</u>		<u>9,233</u>	
Eisenhower Professional Development	84.281	043927-MS-S1-2003	-		4,438	
Total Eisenhower Professional Development			<u>-</u>		<u>4,438</u>	
State Grants for Innovative Programs	84.298	043927-C2-S1-2005	6,257		6,257	
Total State Grants for Innovative Programs			<u>6,257</u>		<u>6,257</u>	
Technology Literacy Challenge Fund Grants	84.318	043927-TJ-S1-2005	9,354		9,354	
Total Technology Literacy Challenge Fund Grants			<u>9,354</u>		<u>9,354</u>	
Improving Teacher Quality State Grants	84.367	043927-TR-S1-2004	32,548		-	
Improving Teacher Quality State Grants	84.367	043927-TR-S1-2005	87,141		91,099	
Total Improving Teacher Quality State Grants			<u>119,689</u>		<u>91,099</u>	
Total U.S. Department of Education			<u>738,498</u>		<u>752,438</u>	
Total Federal Financial Assistance			<u>\$ 919,779</u>	<u>\$ 37,297</u>	<u>\$ 933,719</u>	<u>\$ 37,297</u>

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District as of and for the fiscal year ended June 30, 2005, which collectively comprise East Palestine City School District's (the "District") basic financial statements and have issued our report dated January 4, 2006. As disclosed in Note 3 to the financial statements, the beginning net assets of the governmental activities have been restated due to errors and omissions reported in capital assets at June 30, 2004. In addition, fund balances were restated due to accrued interest erroneously being reported as a fund expense in fiscal year 2004, which is described in more detail in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated January 4, 2006.

Board of Education
East Palestine City School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings as item 2005-EPCSD-001. We also noted other matters that we reported to management in a separate letter dated January 4, 2006.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
January 4, 2006



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

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

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

Compliance

We have audited the compliance of the East Palestine City School District, Columbiana County, (the “District”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 3 to the financial statements, the beginning net assets of the governmental activities have been restated due to errors and omissions reported in capital assets at June 30, 2004. In addition, fund balances were restated due to accrued interest erroneously being reported as a fund expense in fiscal year 2004, which is described in more detail in Note 3. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

Board of Education
East Palestine City School District

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

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

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



Julian & Grube, Inc.
January 4, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Special Education Cluster: Special Education: Grants to States CFDA #84.027 and Special Education: Preschool CFDA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

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

Finding Number	2005-EPCSD-001
----------------	----------------

Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that 58% of the expenditures tested were not certified in a timely manner.

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

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

Client response:

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

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
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EAST PALESTINE CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 6, 2006**