

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2008***

RICK ELLIS, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the East Palestine City School District, Columbiana County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 4, 2009

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

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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, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise the East Palestine City School 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.

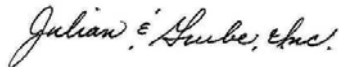
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009, on our consideration of the East Palestine City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is 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.



Julian & Grube, Inc.
January 16, 2009

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

The management's discussion and analysis of the East Palestine City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- General Revenues accounted for \$10,307,256 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,366,142 or 19 percent of total revenues of \$12,673,398.
- Total program expenses were \$12,577,687.
- Net assets of governmental activities increased by \$95,711, which represents a .42 percent increase from 2007.
- Outstanding note, bonded debt and capital lease liability decreased from \$4,320,675 to \$3,644,148 through principal payments.

Using this Annual Financial Report

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

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

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 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement debt service fund and the permanent improvement capital projects fund.

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

The School District as a Whole (Continued)

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

Table 1 provides a summary of the School District's net assets for 2008 compared to 2007:

(Table 1)
Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and Other Assets	\$ 5,117,358	\$ 7,432,511
Capital Assets	25,639,785	24,988,381
Total Assets	30,757,143	32,420,892
Liabilities		
Long-Term Liabilities	4,196,818	4,894,131
Other Liabilities	3,862,505	4,924,652
Total Liabilities	8,059,323	9,818,783
Net Assets		
Invested in Capital Assets Net of Debt	21,995,636	22,263,542
Restricted	1,210,879	760,699
Unrestricted (Deficit)	(508,695)	(422,132)
Total Net Assets	\$ 22,697,820	\$ 22,602,109

Total governmental assets decreased by \$1,663,749. The majority of the decrease is due to decreases in taxes and intergovernmental receivables. An increase of \$651,404 in total capital assets reflects current year additions exceeding depreciation. Total governmental liabilities decreased by \$1,759,460, which can primarily be attributed to decreases in contracts payable, deferred revenue and long-term liabilities.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

The School District as a Whole (Continued)

Table 2 shows the changes in net assets for fiscal year 2008 and 2007. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

(Table 2)
Change in Net Assets

	Governmental Activities 2008	Governmental Activities 2007
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 678,784	\$ 656,139
Operating Grants	1,605,550	1,620,916
Capital Grants	81,808	72,535
<i>General Revenue:</i>		
Property Taxes	3,326,993	3,195,279
Grants and Entitlements	6,867,510	6,638,232
Other Local Revenue	24,968	0
Other	87,785	130,776
<i>Total Revenues</i>	12,673,398	12,313,877
Program Expenses		
Instruction	7,231,977	6,777,209
Support Services	4,227,587	4,056,777
Operation of Non-Instructional	479,608	473,655
Extracurricular Activities	433,469	372,501
Interest and Fiscal Charges	205,046	162,183
<i>Total Expenses</i>	12,577,687	11,842,325
Increase (Decrease) in Net Assets	\$ 95,711	\$ 471,552
<i>Net Assets Beginning of Year</i>	22,602,109	22,130,557
<i>Net Assets End of Year</i>	\$ 22,697,820	\$ 22,602,109

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental activities had total revenues of \$12,673,398 and expenses of \$12,577,687.

(Table 3)
Governmental Activities
Cost of Services

	2008	2007	2008	2007
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 7,231,977	\$ 6,777,209	\$ (5,676,139)	\$ (5,294,426)
Support Services:				
Pupil and Instructional Staff	1,026,524	1,110,826	(983,987)	(1,038,183)
Board of Education, Administration, Fiscal and Business	1,461,582	1,407,936	(1,461,582)	(1,407,936)
Operation and Maintenance of Plant	1,207,285	1,055,742	(1,201,509)	(937,226)
Pupil Transportation	532,196	481,854	(450,388)	(473,206)
Central	0	419	0	(419)
Operation of Non-Instructional	479,608	473,655	15,056	21,601
Extracurricular Activities	433,469	372,501	(247,950)	(200,757)
Interest and Fiscal Charges	205,046	162,183	(205,046)	(162,183)
Total Expenses	\$ 12,577,687	\$ 11,842,325	\$ (10,211,545)	\$ (9,492,735)

Instruction and student support services comprise 66 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 14 percent of governmental program expenses.

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

The School District's Funds

Information about the School District's governmental funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues (including other financing sources) of \$13,874,444 and expenditures (including other financing uses) of \$15,077,738. The net change in fund balance for the fiscal year was a decrease of \$1,203,294. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	<u>Increase</u>	Percentage <u>Change</u>
General	\$ (342,269)	\$ (55,083)	\$ (287,186)	521.37 %
Bond Retirement	120,788	75,217	45,571	60.59 %
Permanent Improvement	188,766	135,702	53,064	39.10 %
Other Governmental	<u>735,081</u>	<u>1,749,824</u>	<u>(1,014,743)</u>	<u>(57.99) %</u>
Total	<u>\$ 702,366</u>	<u>\$ 1,905,660</u>	<u>\$ (1,203,294)</u>	<u>(63.14) %</u>

General Fund

The School District's general fund's fund balance decreased by \$287,186, whereas for fiscal year ending June 30, 2007 there was an increase of \$124,450.

Bond Retirement Fund

The increase in the Bond Retirement fund's fund balance reflects a decrease in principal retirement expense from the fiscal year ending June 30, 2007.

Permanent Improvement Fund

There was a decrease in instructional staff and fiscal expenditures and an increase in tax revenue in the Permanent Improvement Fund.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

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 2008, the School District did modify its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue, including other financing sources, was \$9,757,398, over the original budget estimates of \$9,701,171. Of this \$56,227 increase, most was attributable to increased intergovernmental revenue. Actual revenue was \$9,855,720. This amount was higher than final budget basis revenue of \$9,757,398 by \$98,322.

Final appropriations, including other financing uses of \$10,662,470 were \$35,199 higher than the \$10,627,271 in the original budget. Salaries, liability/property/fleet insurance and county auditor fees (for tax collections) proved to be higher than anticipated. Actual expenditures were \$10,301,966 which was lower than final appropriations of \$10,662,470 by \$360,504.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$25,639,785 invested in land, construction in progress, land improvements, buildings, and building improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2008 balances compared with 2007. More detailed information is presented in note 7 of the notes to the basic financial statements.

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

	Governmental Activities	
	2008	2007
Land	\$ 475,814	\$ 475,814
Land Improvements	3,347,908	0
Buildings and Building Improvements	21,523,880	22,187,982
Furniture and Equipment	158,032	181,454
Vehicles	134,151	88,609
Construction in Progress	0	2,054,522
Totals	\$ 25,639,785	\$ 24,988,381

East Palestine City School District
Management's Discussion and Analysis (Continued)
 For the Fiscal Year Ended June 30, 2008

Capital Assets and Debt Administration (Continued)

The \$651,404 increase in capital assets was attributable to current year additions exceeding depreciation expense, primarily resulting from the construction of a new stadium.

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks. For fiscal year 2008, this amounted to \$212,500 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, 2008, the School District had \$3,644,148 in debt outstanding with \$1,294,098 of it due within one year. During fiscal year 2008, \$1,484,483 in bonds was retired. The School District reissued \$1,044,683 of bond anticipation notes during fiscal year 2008. See note 9 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2008	Governmental Activities 2007
Capital Lease	\$ 2,599,465	\$ 2,836,192
Bond Anticipation Notes	1,044,683	1,484,483
Totals	\$ 3,644,148	\$ 4,320,675

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

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 2008.

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, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,405,461
Cash and Cash Equivalents:	
In Segregated Accounts	254,683
With Fiscal Agents	244,421
Investments in Segregated Accounts	71,891
Receivables:	
Taxes	3,063,853
Accounts	277
Intergovernmental	72,611
Inventory Held For Resale	4,161
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets (Net)	<u>25,163,971</u>
<i>Total Assets</i>	<u>30,757,143</u>
Liabilities	
Accounts Payable	76,475
Accrued Wages and Benefits	882,473
Matured Compensated Absences Payable	39,396
Intergovernmental Payable	204,143
Deferred Revenue	2,491,591
Accrued Interest Payable	8,778
Claims Payable	159,649
Long Term Liabilities:	
Due Within One Year	1,347,499
Due In More Than One Year	<u>2,849,319</u>
<i>Total Liabilities</i>	<u>8,059,323</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	21,995,636
Restricted for:	
Capital Projects	608,175
Debt Service	178,304
Other Purposes	357,777
Set Asides	66,623
Unrestricted	<u>(508,695)</u>
<i>Total Net Assets</i>	<u>\$ 22,697,820</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	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					
Instruction:					
Regular	\$ 5,280,369	\$ 312,264	\$ 97,587	\$ 0	\$ (4,870,518)
Special	1,879,283	1,598	1,127,607	0	(750,078)
Vocational	72,325	0	16,782	0	(55,543)
Support Services:					
Pupils	640,155	0	22,544	0	(617,611)
Instructional Staff	386,369	0	19,993	0	(366,376)
Board of Education	67,180	0	0	0	(67,180)
Administration	705,513	0	0	0	(705,513)
Fiscal	265,808	0	0	0	(265,808)
Business	423,081	0	0	0	(423,081)
Operation and Maintenance of Plant	1,207,285	0	5,776	0	(1,201,509)
Pupil Transportation	532,196	0	0	81,808	(450,388)
Operation of Non-Instructional Services:					
Food Service Operations	466,858	184,087	299,399	0	16,628
Community Services	12,750	0	11,178	0	(1,572)
Extracurricular Activities	433,469	180,835	4,684	0	(247,950)
Interest and Fiscal Charges	205,046	0	0	0	(205,046)
Totals	\$ 12,577,687	\$ 678,784	\$ 1,605,550	\$ 81,808	(10,211,545)

General Revenues

Property Taxes Levied for:	
General Purposes	2,346,300
Debt Service	419,907
Capital Outlay	560,786
Other Local Revenue	24,968
Grants and Entitlements not Restricted to Specific Programs	6,867,510
Investment Earnings	79,633
Miscellaneous	8,152
Total General Revenues	10,307,256
Change in Net Assets	95,711
<i>Net Assets Beginning of Year</i>	<u>22,602,109</u>
<i>Net Assets End of Year</i>	<u><u>\$ 22,697,820</u></u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 627,891	\$ 102,043	\$ 167,522	\$ 416,235	\$ 1,313,691
Cash and Cash Equivalents In Segregated Accounts	0	0	0	254,683	254,683
Investments in Segregated Accounts	0	0	0	71,891	71,891
Receivables:					
Taxes	2,032,979	470,638	520,331	39,905	3,063,853
Accounts	55	0	0	222	277
Intergovernmental	0	0	0	72,611	72,611
Inventory Held For Resale	0	0	0	4,161	4,161
Restricted Cash and Cash Equivalents	66,623	0	0	0	66,623
<i>Total Assets</i>	<u>\$ 2,727,548</u>	<u>\$ 572,681</u>	<u>\$ 687,853</u>	<u>\$ 859,708</u>	<u>\$ 4,847,790</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 65,558	\$ 0	\$ 0	\$ 10,917	\$ 76,475
Accrued Wages and Benefits	813,091	0	0	69,382	882,473
Compensated Absences Payable	39,396	0	0	0	39,396
Intergovernmental Payable	202,417	0	0	1,726	204,143
Deferred Revenue	1,949,355	451,893	499,087	42,602	2,942,937
<i>Total Liabilities</i>	<u>3,069,817</u>	<u>451,893</u>	<u>499,087</u>	<u>124,627</u>	<u>4,145,424</u>
Fund Balances					
Reserved for Encumbrances	180,987	0	40,868	46,688	268,543
Reserved for Property Taxes	83,624	18,745	21,244	1,658	125,271
Reserved for Textbook/Instructional Materials	66,623	0	0	0	66,623
Unreserved, Undesignated, Reported in:					
General Fund	(673,503)	0	0	0	(673,503)
Special Revenue Funds	0	0	0	559,407	559,407
Debt Service Fund	0	102,043	0	0	102,043
Capital Projects Funds	0	0	126,654	127,328	253,982
<i>Total Fund Balances</i>	<u>(342,269)</u>	<u>120,788</u>	<u>188,766</u>	<u>735,081</u>	<u>702,366</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,727,548</u>	<u>\$ 572,681</u>	<u>\$ 687,853</u>	<u>\$ 859,708</u>	<u>\$ 4,847,790</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total Governmental Fund Balances	\$	702,366
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		25,639,785
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 4,355	
Delinquent Property Taxes	446,991	451,346

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.		109,919
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In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.		(8,778)
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Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bond Anticipation Notes	(1,044,683)	
Compensated Absences	(552,670)	
Capital Lease Payable	(2,599,465)	(4,196,818)

<i>Net Assets of Governmental Activities</i>	\$	22,697,820
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See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,202,138	\$ 491,718	\$ 557,277	\$ 44,487	\$ 3,295,620
Intergovernmental	7,305,163	67,130	76,081	1,213,241	8,661,615
Other Local Revenue	0	0	0	24,968	24,968
Interest	0	0	0	79,633	79,633
Tuition and Fees	301,325	0	0	0	301,325
Rent	1,598	0	0	0	1,598
Extracurricular Activities	0	0	0	180,836	180,836
Charges for Services	10,938	0	0	184,087	195,025
Contributions and Donations	2,899	0	0	19,387	22,286
Miscellaneous	6,090	0	0	1,584	7,674
<i>Total Revenues</i>	<u>9,830,151</u>	<u>558,848</u>	<u>633,358</u>	<u>1,748,223</u>	<u>12,770,580</u>
Expenditures					
Current:					
Instruction:					
Regular	4,605,349	0	0	118,077	4,723,426
Special	1,308,500	0	0	584,420	1,892,920
Vocational	87,193	0	0	0	87,193
Support Services:					
Pupils	616,072	0	0	34,759	650,831
Instructional Staff	329,310	0	22,400	28,050	379,760
Board of Education	62,411	0	0	0	62,411
Administration	644,592	0	0	59,845	704,437
Fiscal	238,147	16,470	14,275	1,220	270,112
Business	423,081	0	0	0	423,081
Operation and Maintenance of Plant	1,054,326	0	0	161,469	1,215,795
Pupil Transportation	512,821	0	64,871	1,575	579,267
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	463,112	463,112
Community Services	2,500	0	0	10,250	12,750
Extracurricular Activities	174,334	0	0	181,904	356,238
Capital Outlay	0	0	95,077	1,176,986	1,272,063
Debt Service:					
Principal Retirement	0	1,484,483	236,727	0	1,721,210
Interest and Fiscal Charges	0	57,487	146,944	0	204,431
<i>Total Expenditures</i>	<u>10,058,636</u>	<u>1,558,440</u>	<u>580,294</u>	<u>2,821,667</u>	<u>15,019,037</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(228,485)</u>	<u>(999,592)</u>	<u>53,064</u>	<u>(1,073,444)</u>	<u>(2,248,457)</u>
Other Financing Sources (Uses)					
Proceeds of Notes	0	1,044,683	0	0	1,044,683
Premium on Notes Issued	0	480	0	0	480
Transfers In	0	0	0	58,701	58,701
Transfers Out	(58,701)	0	0	0	(58,701)
<i>Total Financing Sources (Uses)</i>	<u>(58,701)</u>	<u>1,045,163</u>	<u>0</u>	<u>58,701</u>	<u>1,045,163</u>
<i>Net Change in Fund Balance</i>	<u>(287,186)</u>	<u>45,571</u>	<u>53,064</u>	<u>(1,014,743)</u>	<u>(1,203,294)</u>
<i>Fund Balance (Deficit) Beginning of Year</i>	<u>(55,083)</u>	<u>75,217</u>	<u>135,702</u>	<u>1,749,824</u>	<u>1,905,660</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (342,269)</u>	<u>\$ 120,788</u>	<u>\$ 188,766</u>	<u>\$ 735,081</u>	<u>\$ 702,366</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (1,203,294)

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Asset Additions	\$ 1,446,442	
Current Year Depreciation	<u>(724,099)</u>	722,343

Net effect of transactions involving sale of capital assets are not reflected in the funds. (70,939)

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

Grants	(129,034)	
Delinquent Property Taxes	<u>31,372</u>	(97,662)

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

Bond Anticipation Note Principal	1,484,483	
Capital Lease Principal	<u>236,727</u>	1,721,210

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (615)

Proceeds of notes in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (1,044,683)

Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 20,786

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. 48,565

Change in Net Assets of Governmental Activities \$ 95,711

See accompanying notes to the basic financial statements.

East Palestine City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 2,261,448	\$ 2,261,448	\$ 2,227,762	\$ (33,686)
Intergovernmental	7,080,622	7,130,349	7,305,163	174,814
Tuition and Fees	296,000	296,500	301,325	4,825
Customer Sales and Service	0	0	10,938	10,938
Rent	2,400	2,400	1,598	(802)
Contributions and Donations	0	1,000	2,899	1,899
Miscellaneous	2,000	7,000	6,035	(965)
<i>Total Revenues</i>	<u>9,642,470</u>	<u>9,698,697</u>	<u>9,855,720</u>	<u>157,023</u>
Expenditures				
Current				
Instruction:				
Regular	4,776,195	4,595,104	4,629,994	(34,890)
Special	1,440,183	1,302,593	1,396,099	(93,506)
Vocational	119,758	116,500	116,092	408
Support Services:				
Pupils	643,845	765,377	624,137	141,240
Instructional Staff	363,004	448,411	351,892	96,519
Board of Education	33,608	50,856	32,579	18,277
Administration	680,978	735,727	660,133	75,594
Fiscal	246,015	251,220	238,484	12,736
Business	455,661	395,556	441,713	(46,157)
Operation and Maintenance of Plant	1,138,355	1,165,187	1,103,510	61,677
Pupil Transportation	543,669	564,564	527,027	37,537
Operation of Non-Instructional Services:				
Community Services	1,032	2,500	1,000	1,500
Extracurricular Activities	184,968	198,875	179,306	19,569
<i>Total Expenditures</i>	<u>10,627,271</u>	<u>10,592,470</u>	<u>10,301,966</u>	<u>290,504</u>
Excess of Revenues Over (Under) Expenditures	<u>(984,801)</u>	<u>(893,773)</u>	<u>(446,246)</u>	<u>447,527</u>
Other Financing Sources (Uses)				
Advances In	58,701	58,701	0	(58,701)
Advances Out	0	(70,000)	0	70,000
<i>Total Other Financing Sources (Uses)</i>	<u>58,701</u>	<u>(11,299)</u>	<u>0</u>	<u>11,299</u>
<i>Net Change in Fund Balance</i>	<u>(926,100)</u>	<u>(905,072)</u>	<u>(446,246)</u>	<u>458,826</u>
<i>Fund Balance Beginning of Year</i>	<u>735,804</u>	<u>735,804</u>	<u>735,804</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>203,547</u>	<u>203,547</u>	<u>203,547</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 13,251</u>	<u>\$ 34,279</u>	<u>\$ 493,105</u>	<u>\$ 458,826</u>

See accompanying notes to the basic financial statements.

East Palestine City School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2008

	Governmental Activities Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 25,147
Cash with Fiscal Agents	<u>244,421</u>
<i>Total Assets</i>	<u>269,568</u>
Liabilities	
Claims Payable	<u>159,649</u>
Net Assets	
Unrestricted	<u><u>\$ 109,919</u></u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2008

	Governmental Activities - Internal Service Fund
Operating Revenue	
Charges for Services	\$ 1,559,848
Operating Expenses	
Fringe Benefits	28,736
Purchased Services	258,118
Claims	1,229,854
Other	1,806
	1,518,514
<i>Total Operating Expenses</i>	1,518,514
<i>Operating Income</i>	41,334
Non-Operating Revenue	
Interest	7,231
	7,231
<i>Net Change in Net Assets</i>	48,565
<i>Net Assets Beginning of Year</i>	61,354
	61,354
<i>Net Assets End of Year</i>	\$ 109,919

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2008

	<u>Governmental Activities - Internal Service Fund</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 1,559,848
Cash Paid for Goods and Services	(258,118)
Cash Paid to Employees	(28,736)
Cash Paid for Claims	(1,266,801)
Other Cash Payments	<u>(1,806)</u>
<i>Net Cash Provided By Operating Activities</i>	<u>4,387</u>
Cash Flows From Investing Activities	
Interest on Investments	<u>7,231</u>
<i>Net Increase in Cash and Cash Equivalents</i>	11,618
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>257,950</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 269,568</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 41,334
Adjustment:	
Decrease in Claims Payable	<u>(36,947)</u>
<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 4,387</u></u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	\$ 52,734
Accounts Receivable	<u>115</u>
<i>Total Assets</i>	<u><u>52,849</u></u>
Liabilities	
Accounts Payable	\$ 1,449
Due to Students	<u>51,400</u>
<i>Total Liabilities</i>	<u><u>\$ 52,849</u></u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

The East Palestine City School District (the "School District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2007, was 1,307. The School District employs 88 certificated and 53 non-certificated employees.

Reporting Entity

The reporting entity is required to be comprised of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service and student related activities of the School District.

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

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

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

Note 2: Summary of Significant Accounting Policies

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

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

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

C. Measurement Focus

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

D. Basis of Accounting

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

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

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds (except for cash with fiscal agent), including the internal service fund, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2008, investments were limited to certificates of deposit, overnight sweep accounts, Federal Home Loan Mortgage Corporation notes, and Federal National Mortgage Association discount notes.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. The School District's Board Resolution does not provide any interest allocation to the General Fund. Interest revenue credited to the Stadium Project Fund during fiscal year 2008 amounted to \$69,295, which includes \$53,480 assigned from other funds. Total interest revenue earned in governmental funds in fiscal year 2008 amounted to \$79,633.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

F. Inventory

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

Inventory consists of donated and purchased food held for resale.

G. Restricted Assets

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 Years
Buildings and Building Improvements	20 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	8 Years

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from internal service funds are reported on the proprietary fund financial statements.

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2008, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities grants and extracurricular activities.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

L. Fund Balance Reserves

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

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

M. Operating Revenues and Expenses

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

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2008.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

Q. Budgetary Data

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

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

R. Changes in Accounting Principles

For the year ended 2008, the School District has implemented GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", GASB Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*", and GASB Statement No. 50, "*Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27.*"

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 2: Summary of Significant Accounting Policies (Continued)

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*”, and GASB Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*”, to conform with requirements of GASB Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, and GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

Note 3: Budgetary Basis of Accounting

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

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

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	\$ (287,186)
Net Adjustment for Revenue Accruals	25,569
Net Adjustment for Expenditure Accruals	16,783
Encumbrances	<u>(201,412)</u>
Budgetary Basis	<u>\$ (446,246)</u>

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 4: Fund Deficits

Fund balances at June 30, 2008 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ 342,269
Other Governmental Funds:	
Poverty Based Assistance	2,081
Title VIB	4,871

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

Note 5: Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 5: Deposits and Investments (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2008, the School District and public depositories complied with the provisions of these statutes.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 5: Deposits and Investments (Continued)

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$1,203,126. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2008, \$870,892 of the School District's bank balance of \$1,226,013 was exposed to custodial risk as discussed above, while \$355,121 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2008, the School District had the following investments and maturities:

<u>Investment Type</u>	Fair Value	<u>Investment Maturities</u>	
		6 Months or Less	More than 24 Months
FHLMC Notes	\$ 251,143	\$ 0	\$ 251,143
FNMA Notes	198,500	0	198,500
Repurchase Agreement	132,000	132,000	0
 Total	 <u>\$ 581,643</u>	 <u>\$ 132,000</u>	 <u>\$ 449,643</u>

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

Credit Risk. The School District's investments in Federal Home Loan Mortgage Corporation notes and Federal National Mortgage Association notes were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The repurchase agreement is an unrated investment. The securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 5: Deposits and Investments (Continued)

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2008:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Federal Home Loan Mtg. Corp.	\$ 251,143	43.18%
Federal National Mtg. Assoc.	198,500	34.13%
Repurchase Agreement	<u>132,000</u>	<u>22.69%</u>
 Total	 <u>\$ 581,643</u>	 <u>100.00%</u>

Funds Held by Fiscal Agent

The School District participates in the Columbiana County Insurance Consortium for employee benefits. The bank balance at fiscal year end for the Employee Benefit Self-Insurance Fund was \$244,421. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Cash in Segregated Accounts

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

Investments in Segregated Accounts

Investments in segregated accounts at June 30, 2008 consist of \$71,891 invested in certificates of deposit.

Note 6: Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State Law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 6: Property Taxes (Continued)

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. For 2007, tangible personal property was assessed at 12.5 percent for property including inventory. This percentage was decreased to 6.25 percent for 2008 and will be reduced to zero in 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Columbiana County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At June 30, 2008, \$83,624 was available as an advance to the general fund, \$18,745 to the bond retirement debt service fund, \$21,244 to the permanent improvement capital projects fund and \$1,658 to the classroom facilities maintenance special revenue fund. At June 30, 2007, \$109,248 was available as an advance to the general fund, \$24,518 to the bond retirement debt service fund, \$27,787 to the permanent improvement capital projects fund and \$2,230 to the classroom facilities maintenance special revenue fund.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 6: Property Taxes (Continued)

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007		2008	
	Second-Half Collections		First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and other real estate	\$ 94,849,990	80%	\$ 101,741,520	83%
Commercial Industrial	12,706,730	11%	12,761,700	10%
Tangible Personal Property	11,097,800	9%	7,571,390	6%
Total Assessed Value	<u>\$ 118,654,520</u>	<u>100%</u>	<u>\$ 122,074,610</u>	<u>100%</u>
 Tax rate per \$1,000 of assessed value		 <u>\$ 31.30</u>		 <u>\$ 31.30</u>

Note 7: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2008 was as follows:

	Balance 06/30/2007	Additions	Reductions	Balance 06/30/2008
Governmental Activities:				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
Construction in Progress	2,054,522	1,360,768	(3,415,290)	0
Total Capital Assets, Not Being Depreciated	<u>2,530,336</u>	<u>1,360,768</u>	<u>(3,415,290)</u>	<u>475,814</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	277,160	3,415,290	(107,663)	3,584,787
Building and Building Improvements	26,531,688	0	(85,140)	26,446,548
Furniture and Equipment	548,171	6,218	0	554,389
Vehicles	843,769	79,456	0	923,225
Total Capital Assets, Being Depreciated	<u>28,200,788</u>	<u>3,500,964</u>	<u>(192,803)</u>	<u>31,508,949</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(277,160)	(67,383)	107,663	(236,880)
Building and Building Improvements	(4,343,706)	(593,162)	14,201	(4,922,667)
Furniture and Equipment	(366,717)	(29,640)	0	(396,357)
Vehicles	(755,160)	(33,914)	0	(789,074)
Total Accumulated Depreciation	<u>(5,742,743)</u>	<u>(724,099) *</u>	<u>121,864</u>	<u>(6,344,978)</u>
Total Capital Assets Being Depreciated, Net	<u>22,458,045</u>	<u>2,776,865</u>	<u>(70,939)</u>	<u>25,163,971</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 24,988,381</u>	 <u>\$ 4,137,633</u>	 <u>\$ (3,486,229)</u>	 <u>\$ 25,639,785</u>

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 7: Capital Assets (Continued)

*Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	600,675
Support Services:		
Instructional Staff		4,444
Board of Education		4,780
Operation and Maintenance		456
Pupil Transportation		32,767
Operation of Non-Instructional Services		3,746
Extracurricular Activities		77,231
		77,231
Total Depreciation Expense	\$	724,099

Note 8: Receivables

Receivables at June 30, 2008, consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal Funds. All are expected to be received within one year.

Note 9: Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year 2008 were as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due in One Year
Bond Anticipation Note, 3.83% interest rate, maturing May 2008	\$ 1,484,483	\$ 0	\$ (1,484,483)	\$ 0	\$ 0
Bond Anticipation Note, 5.50% interest rate, maturing May 2009	0	303,831	0	303,831	303,831
Bond Anticipation Note, 5.50% interest rate, maturing May 2009	0	740,852	0	740,852	740,852
Capital lease payable	2,836,192	0	(236,727)	2,599,465	249,415
Compensated absences payable	573,456	4,951	(25,737)	552,670	53,401
Total long-term obligations	\$ 4,894,131	\$ 1,049,634	\$ (1,746,947)	\$ 4,196,818	\$ 1,347,499

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 9: Long-Term Obligations (Continued)

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

Compensated absences will be paid from the general fund. The bond anticipation notes will be paid from the bond retirement fund. Capital leases will be paid from the permanent improvement fund.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2008 are as follows:

<u>Years ending June 30,</u>	Bond Anticipation Notes	
	Principal	Interest
2009	\$ 1,044,683	\$ 52,234

Note 10: Capitalized Leases – Lessee Disclosure

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

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.

A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease. The first principal payment began in fiscal year 2007.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2008:

Year ending June 30,	2009	\$	383,672
	2010		383,672
	2011		383,672
	2012		383,672
	2013		383,672
	2014-2018		1,342,852
			3,261,212
Less: amount representing interest			661,747
Present value of minimum lease payments		\$	2,599,465

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 11: Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost sharing multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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.

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District’s required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were \$637,512, \$677,364 and \$673,344, respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$6,097 made by the School District and \$11,093 made by the plan members.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 11: Defined Benefit Pension Plans (Continued)

B. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The School District’s contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$141,108, \$137,568 and \$199,524, respectively; 60 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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, 2008, two members of the Board of Education have elected social security. The Board’s liability is 6.2 percent of wages paid.

Note 12: Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (“STRS Ohio”), and to retired non-certified employees and their dependents through the School Employees Retirement System (“SERS”). Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. The District’s contributions for fiscal years ended June 30, 2008, 2007 and 2006 were \$45,537, \$48,383 and \$48,096, respectively. 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 12: Postemployment Benefits (Continued)

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 was \$93.50; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007 (the latest information available), the actuarially required allocation was .68 percent. The School District's contributions for the year ended June 30, 2008, 2007 and 2006 were \$6,854, \$6,310 and \$9,691, respectively, which equaled the required contributions for the year; 60 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18 percent. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation (the latest information available), was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The School District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$51,509, \$57,542 and \$72,314, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 12: Postemployment Benefits (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

Note 13: Other Employee Benefits

A. *Compensated Absences*

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

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

B. *Life Insurance*

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

Note 14: Statutory Reserves

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 14: Statutory Reserves (Continued)

	<u>Textbook Reserve</u>	<u>Capital Acquisition</u>
Set-Aside Balance as of June 30, 2007	\$ 103,992	\$ 0
Current Year Set-Aside Requirement	212,500	212,500
Carryover From Prior Years	0	(1,354,000)
Current Year Offset Credits	0	(613,879)
Current Year Qualifying Disbursements	<u>(249,869)</u>	<u>0</u>
Total	<u>\$ 66,623</u>	<u>\$ (1,755,379)</u>
Balance Carried Forward to Future Fiscal Years	<u>\$ 66,623</u>	<u>\$ (1,354,000)</u>
Cash Balance Carried Forward to Fiscal Year 2009	<u>\$ 66,623</u>	<u>\$ 0</u>

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

Note 15: Risk Management

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2008, the School District has property and liability insurance coverage as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and contents – replacement coverage	\$ 1,000	\$ 38,936,376
Boiler and machinery – blanket limit	500	5,000,000
Crime insurance	500	25,000
Automobile liability	0	1,000,000
Uninsured motorists	0	1,000,000
General liability	0	1,000,000
Education liability:		
Per occurrence	0	1,000,000
Total per year	0	2,000,000
School Board Errors and Omissions		1,000,000
Umbrella	0	3,000,000

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 15: Risk Management (Continued)

Settlements have not exceeded coverage in any of the last three fiscal years. There has been a significant decrease in coverage for buildings and contents of 17 percent. There has been no significant reduction in other coverage.

B. Fidelity Bond

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

C. Workers' Compensation

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

D. Employee Health Insurance

Medical, surgical and dental insurance is offered to all employees through a self insurance internal service fund. The School District is a member of the Ohio Mid-Eastern Regional Education Service Agency Health Benefit Plan, a public entity risk management, insurance, and claims servicing pool, consisting of school districts within the region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$159,649 reported in the internal service fund at June 30, 2008, is based on an estimate and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in fund's claims liability for the fiscal years 2008 and 2007 are as follows:

	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2008	\$ 196,596	\$ 1,229,854	\$ 1,266,801	\$ 159,649
2007	\$ 110,032	\$ 1,034,433	\$ 947,869	\$ 196,596

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 16: Interfund Transfers

The interfund transfers in and transfers out reported on the statement of revenues, expenditures and changes in fund balance represent the reclassification of advances. In the prior year, the general fund advanced \$12,000, \$45,000, and \$1,701 to the Title VI-B fund, the Title I fund and the Title VI fund, respectively. In fiscal year 2008, it was determined these advances would not be repaid, and they were converted to transfers.

Note 17: Related Organization

The East Palestine Public Library (the "Library") is a related organization to the School District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library's operation, nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the School District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the School District during the fiscal year 2008.

Note 18: Jointly Governed Organizations

A. Area Cooperative Computerized Education Service System (ACCESS)

ACCESS is a jointly governed organization comprised of 26 public school districts, 2 educational service centers, 20 non-public schools, and 2 special education regional resource centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The seven member board of governors consists of the two superintendents and one treasurer from each county (Columbiana and Mahoning). The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for ACCESS. The assembly exercises total control over operating of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing to: Mahoning County Educational Service Center, Treasurer's Office, 2801 Market Street, Room 202, Youngstown, Ohio 44507-1693. The continued existence of ACCESS is not dependent upon the School District's continued participation and no measurable equity interest exists. The School District paid \$34,150 for services provided during fiscal year 2008.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2008

Note 18: Jointly Governed Organizations (Continued)

B. Columbiana County Career Center

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

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

Note 19: Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

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

SUPPLEMENTARY DATA

EAST PALESTINE CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(F) 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:						
(B) Food Donation	10.550	2008	\$ -	\$ 28,658	\$ -	\$ 28,658
Nutrition Cluster:						
(A), (C) School Breakfast Program	10.553	2008	46,602		46,602	
(A), (C) National School Lunch Program	10.555	2008	241,823		241,823	
Total Nutrition Cluster			<u>288,425</u>		<u>288,425</u>	
Total U.S. Department of Agriculture			<u>288,425</u>	<u>28,658</u>	<u>288,425</u>	<u>28,658</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	2006A	103		108	
Title I - Grants to Local Educational Agencies	84.010	2007	65,419		22,062	
Title I - Grants to Local Educational Agencies	84.010	2008	257,706		249,569	
Total Title I - Grants to Local Educational Agencies			<u>323,228</u>		<u>271,739</u>	
Special Education Cluster						
(E) Special Education: Grants to States	84.027	2007	6,347		-	
(E) Special Education: Grants to States	84.027	2008	311,077		311,077	
Total Special Education: Grants to States			<u>317,424</u>		<u>311,077</u>	
(E) Special Education: Preschool Grants	84.173	2008	10,630		10,630	
Total Special Education Cluster			<u>328,054</u>		<u>321,707</u>	
Safe and Drug-Free Schools and Communities_State Grants	84.186	2005	-		972	
Safe and Drug-Free Schools and Communities_State Grants	84.186	2007	2,375		5,252	
Safe and Drug-Free Schools and Communities_State Grants	84.186	2008	7,183		7,183	
Total Safe and Drug-Free Schools and Communities_State Grants			<u>9,558</u>		<u>13,407</u>	
State Grants for Innovative Programs	84.298	2007	1,701		-	
State Grants for Innovative Programs	84.298	2008	1,871		1,871	
Total State Grants for Innovative Programs			<u>3,572</u>		<u>1,871</u>	
Education Technology_State Grants	84.318	2008	3,324		1,977	
Improving Teacher Quality State Grants	84.367	2007	23,908		-	
Improving Teacher Quality State Grants	84.367	2008	83,229		84,827	
Total Improving Teacher Quality State Grants			<u>107,137</u>		<u>84,827</u>	
Total U.S. Department of Education			<u>774,873</u>		<u>695,528</u>	
Total Federal Financial Assistance			<u>\$ 1,063,298</u>	<u>\$ 28,658</u>	<u>\$ 983,953</u>	<u>\$ 28,658</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 their entitlement value.
- (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.
- (F) OAKS did not assign pass-through numbers for fiscal year 2008



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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, Columbiana County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise East Palestine City School District's basic financial statements and have issued our report thereon dated January 16, 2009. 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 East Palestine City School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Palestine City School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of East Palestine City School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects East Palestine City School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of East Palestine City School District's financial statements that is more than inconsequential will not be prevented or detected by East Palestine City School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the East Palestine City School District's internal control.

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

Board of Education
East Palestine City School District

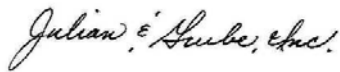
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Palestine City School 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 which is described in the accompanying schedules of findings and responses as item 2008-EPCSD-001.

We noted certain other matters that we reported to the management of the East Palestine City School District in a separate letter dated January 16, 2009.

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

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



Julian & Grube, Inc.
January 16, 2009



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Report on Compliance With Requirements Applicable to Its Major Programs and on 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, Ohio, 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 each of its major federal programs for the fiscal year ended June 30, 2008. The East Palestine City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the East Palestine City School District's management. Our responsibility is to express an opinion on the East Palestine City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 East Palestine City School 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 East Palestine City School District's compliance with those requirements.

In our opinion, the East Palestine City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Board of Education
East Palestine City School District

Internal Control Over Compliance

The management of the East Palestine City School 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 East Palestine City School District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the East Palestine City School District's internal control over compliance.

A control deficiency in East Palestine City School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects East Palestine City School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the East Palestine City School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by East Palestine City School District's internal control.

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

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

Julian & Grube, Inc.

Julian & Grube, Inc.
January 16, 2009

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

**SCHEDULE OF FINDINGS & RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Title I Grants to Local Educational Agencies - CFDA #84.010; <i>Special Education Cluster</i> - Special Education - Grants to States - CFDA # 84.027 and Special Education - Preschool Grants - CFDA #84.173;
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

**SCHEDULE OF FINDINGS & RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2008-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 31% of the expenditures tested were not certified in a timely manner.

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

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

Client response: The Treasurer will attempt to use Then and Now certificates when applicable and certify expenditures by issuing purchase orders prior to invoices.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-EPCSD-001	Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Finding Repeated as 2008-EPCSD-001
2007-EPCSD-002	Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by resolution and comply with the same provisions of the law as used in making the original appropriations.	No	Partially Corrected. Included in management letter.
2007-EPCSD-003	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Partially Corrected. Included in management letter.
2007-EPCSD-004	During the course of our audit, we identified material misstatements in the financial statements for the year under audit that were not initially identified by the District's internal control. Audit adjustments were necessary to correct errors on the District's financial statements.	Yes	Corrected



Mary Taylor, CPA
Auditor of State

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 17, 2009