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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
Single Audit
For the Year Ended June 30, 2014**

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Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the East Palestine City School District, Columbiana County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

May 1, 2015

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

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INDEPENDENT AUDITOR'S REPORT

January 30, 2015

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **East Palestine City School District**, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Palestine City School District, Columbiana County, as of June 30, 2014, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

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

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

The discussion and analysis of East Palestine City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- In total, net position decreased \$851,311, which represents a 4 percent decrease from the prior fiscal year.
- Capital assets decreased \$806,663, which represents a 4 percent decrease from the prior fiscal year.
- During the fiscal year, outstanding capital lease obligations payable decreased to \$887,527.
- On a modified accrual basis, the general fund balance decreased \$27,373, or 6 percent.
- On a modified accrual basis, the permanent improvement fund balance decreased \$38,058, or 10 percent.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Reporting the District's Fiduciary Responsibilities

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

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

The District as a Whole

The Statement of Net Position provides the perspective of the District as a whole. Table 1 shows net position for fiscal year 2014 as compared to fiscal year 2013.

Table 1
Net Position (Table 1)

	2014	(Restated) 2013	Change
Assets			
Current and Other Assets	\$5,272,486	\$5,677,054	(\$404,568)
Capital Assets, Net	21,117,601	21,924,264	(806,663)
<i>Total Assets</i>	<u>26,390,087</u>	<u>27,601,318</u>	<u>(1,211,231)</u>
Liabilities			
Current Liabilities	1,206,612	1,117,111	89,501
Long-Term Liabilities			
Due within One Year	377,362	351,023	26,339
Due in More than One Year	893,965	1,203,535	(309,570)
<i>Total Liabilities</i>	<u>2,477,939</u>	<u>2,671,669</u>	<u>(193,730)</u>
Deferred Inflows of Resources			
Property Taxes	2,378,009	2,544,199	(166,190)
Net Position			
Net Investment in Capital Assets	20,230,074	20,712,919	(482,845)
Restricted	1,007,271	1,210,273	(203,002)
Unrestricted	296,794	462,258	(165,464)
<i>Total Net Position</i>	<u>\$21,534,139</u>	<u>\$22,385,450</u>	<u>(\$851,311)</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities plus deferred inflows by \$21,534,139. Unrestricted net position at the end of the current fiscal year was \$296,794.

At fiscal year-end, capital assets represented 80 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The net investment in capital assets at June 30, 2014, was \$20,230,074. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Total liabilities decreased \$193,730 primarily due to principal payments made on the outstanding capital lease obligations.

Restricted net position of \$1,007,271 represents resources that are subject to external restriction on how they may be used.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Table 2 shows the changes in net position for fiscal year 2014 and 2013:

	Table 2		
	Change in Net Position		
	2014	2013	Increase (Decrease)
Revenues			
Program Revenues			
Charges for Services and Sales	\$771,871	\$785,162	(\$13,291)
Operating Grants and Contributions	1,014,158	1,098,347	(84,189)
Capital Grants and Contributions	0	14,526	(14,526)
<i>Total Program Revenues</i>	<u>1,786,029</u>	<u>1,898,035</u>	<u>(112,006)</u>
General Revenues			
Property Taxes	2,738,273	2,761,121	(22,848)
Grants and Entitlements Not Restricted	7,929,019	7,386,789	542,230
Investment Earnings	7,653	0	7,653
Miscellaneous	73,731	51,743	21,988
<i>Total General Revenues</i>	<u>10,748,676</u>	<u>10,199,653</u>	<u>549,023</u>
<i>Total Revenues</i>	<u>12,534,705</u>	<u>12,097,688</u>	<u>437,017</u>
Program Expenses			
Current:			
Instruction:			
Regular	4,555,222	4,361,210	194,012
Special	2,422,238	2,102,406	319,832
Vocational	41,763	40,855	908
Support Services:			
Pupil	789,020	578,844	210,176
Instructional Staff	342,871	258,024	84,847
Board of Education	25,623	19,496	6,127
Administration	841,837	737,401	104,436
Fiscal	315,912	265,128	50,784
Business	820,032	831,682	(11,650)
Operation and Maintenance of Plant	1,106,204	1,058,904	47,300
Pupil Transportation	692,555	589,793	102,762
Operation of Non-Instructional Services	7,052	1,000	6,052
Operation of Food Services	507,657	535,550	(27,893)
Extracurricular Activities	861,032	733,757	127,275
Interest and Fiscal Charges	56,998	73,917	(16,919)
<i>Total Program Expenses</i>	<u>13,386,016</u>	<u>12,187,967</u>	<u>1,198,049</u>
<i>Change in Net Position</i>	<u>(851,311)</u>	<u>(90,279)</u>	<u>(761,032)</u>
Net Position Beginning of Year	<u>22,385,450</u>	<u>22,475,729</u>	<u>(90,279)</u>
<i>Net Position End of Year</i>	<u>\$21,534,139</u>	<u>\$22,385,450</u>	<u>(\$851,311)</u>

Unrestricted grants and entitlements increased due to increased foundation receipts.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Governmental Activities

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 85 percent of total governmental revenue. Property taxes support 20 percent of total expenses while grants and entitlements supported 59 percent of total expenses. Between these two revenue items, nearly 80 percent of total expenses were funded.

The largest expense of the District is for its instructional programs. Instructional expenses totaled \$7,019,223, or 52 percent, of total governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2014 and 2013. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Table 3
Total and Net Cost of Program Services

	2014		2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses				
Instruction	\$7,019,223	\$5,992,359	\$6,504,471	\$5,387,510
Support Services:				
Pupil	789,020	789,020	578,844	578,844
Instructional Staff	342,871	337,471	258,024	252,624
Board of Education	25,623	25,623	19,496	19,496
Administration	841,837	819,222	737,401	696,104
Fiscal	315,912	315,912	265,128	265,128
Business	820,032	820,032	831,682	831,682
Operation and Maintenance of Plant	1,106,204	1,106,204	1,058,904	1,051,934
Pupil Transportation	692,555	651,736	589,793	569,202
Operation of Non-Instructional Services	7,052	7,052	1,000	1,000
Food Service Operation	507,657	(611)	535,550	(2,270)
Extracurricular Activities	861,032	678,969	733,757	564,761
Interest and Fiscal Charges	56,998	56,998	73,917	73,917
<i>Total Expenditures</i>	<u>\$13,386,016</u>	<u>\$11,599,987</u>	<u>\$12,187,967</u>	<u>\$10,289,932</u>

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

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$1,265,652 which is a decrease from last year's total of \$1,484,206 by more than 14 percent. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	(Decrease)
General	\$429,423	\$456,796	(\$27,373)
Permanent Improvement	355,365	393,423	(38,058)
Other Governmental	480,864	633,987	(153,123)
Total	\$1,265,652	\$1,484,206	(\$218,554)

General Fund

During fiscal year 2014, the District's general fund balance decreased on a modified accrual basis by \$27,373; total revenues within the general fund increased by 6 percent while expenditures also increased by 7 percent, resulting in the overall decrease to fund balance. The following table assists in illustrating the financial activities and fund balance of the general fund.

	2014 Amount	2013 Amount	Percentage Change
<u>Revenues</u>			
Taxes	\$2,211,459	\$2,202,630	0.4 %
Tuition and Fees	270,037	298,731	(9.6) %
Charges for Services	180,727	165,794	9.0 %
Intergovernmental	7,865,894	7,293,143	7.9 %
Other revenues	137,830	118,070	16.7 %
Total	\$10,665,947	\$10,078,368	5.8 %
<u>Expenditures</u>			
Instruction	5,872,232	5,594,808	5.0 %
Support services	4,581,193	4,138,801	10.7 %
Operation of non-instructional services	3,087	1,000	208.7 %
Extracurricular activities	236,808	234,392	1.0 %
Total	\$10,693,320	\$9,969,001	7.3 %

Permanent Improvement Fund

The District's permanent improvement capital projects fund had \$639,798 in revenues and \$677,856 in expenditures. The fund balance decreased \$38,058 from a balance of \$393,423 in fiscal year 2013, to a balance of \$355,365 in fiscal year 2014.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

General Fund Budgeting Highlights

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

During the course of fiscal year 2014 the District amended its general fund budget a few times. The District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual revenue, including other financing sources, was \$10,640,412, which was \$95,824 higher than the final budgeted revenue of \$10,549,588.

Total actual expenditures, including other financing uses, were \$10,921,452, which was \$991,423 less than final appropriations of \$11,912,875. The variance with final appropriations was due to a conservative estimates approach.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the District had \$21,117,601 invested in capital assets. Table 4 shows fiscal year 2014 balances compared to fiscal year 2013:

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

	<u>2014</u>	<u>2013</u>
Land	\$475,814	\$475,814
Land Improvements	2,305,318	2,476,083
Buildings and Building Improvements	17,994,364	18,573,157
Furniture and Equipment	197,510	227,138
Vehicles	<u>144,595</u>	<u>172,072</u>
<i>Total</i>	<u>\$21,117,601</u>	<u>\$21,924,264</u>

All capital assets, except land are reported net of depreciation. The District had an overall decrease in capital assets of \$806,663, attributable to current year depreciation of \$818,461 exceeding capital purchases. For more information about the District's capital assets, see Note 9 to the basic financial statements.

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Long-Term Debt Obligations

At June 30, 2014, the District had \$887,527 in capital leases payable outstanding with \$341,174 due within one year. The following table summarizes the outstanding capital lease obligations.

Table 5
Outstanding Long-Term Debt Obligations at Year End

	<u>2014</u>	<u>2013</u>
Capital Leases Payable	<u>\$887,527</u>	<u>\$1,211,345</u>

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

Current Issues

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

Real estate and personal property tax collections have shown small decreases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflammatory increase in value is comparable to other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. More staff retirements have helped the bottom line since all were replaced with staff members having little or no experience.

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

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

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

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

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

East Palestine City School District
Columbiana County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Contacting the District's Financial Management

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

East Palestine City School District

Columbiana County, Ohio

Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,092,503
Cash and Cash Equivalents:	
In Segregated Accounts	286,628
Accrued Interest Receivable	1,136
Accounts Receivable	498
Intergovernmental Receivable	96,699
Property Taxes Receivable	2,795,022
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets, Net	20,641,787
<i>Total Assets</i>	<u>26,390,087</u>
Liabilities	
Accounts Payable	75,978
Accrued Wages and Benefits Payable	810,548
Contracts Payable	52,337
Intergovernmental Payable	259,924
Accrued Interest Payable	7,825
Long-Term Liabilities:	
Due Within One Year	377,362
Due In More Than One Year	893,965
<i>Total Liabilities</i>	<u>2,477,939</u>
Deferred Inflows of Resources	
Property Taxes	<u>2,378,009</u>
Net Position	
Net Investment in Capital Assets	20,230,074
Restricted for:	
Capital Projects	652,173
Debt Service	43,301
Other Purposes	311,797
Unrestricted	296,794
<i>Total Net Position</i>	<u>\$21,534,139</u>

See accompanying notes to the basic financial statements

East Palestine City School District

Columbiana County, Ohio

*Statement of Activities
For the Fiscal Year Ended June 30, 2014*

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$4,555,222	\$436,919	\$46,162	(\$4,072,141)
Special	2,422,238	13,845	529,938	(1,878,455)
Vocational	41,763	0	0	(41,763)
Support Services:				
Pupils	789,020	0	0	(789,020)
Instructional Staff	342,871	0	5,400	(337,471)
Board of Education	25,623	0	0	(25,623)
Administration	841,837	5,715	16,900	(819,222)
Fiscal	315,912	0	0	(315,912)
Business	820,032	0	0	(820,032)
Operation and Maintenance of Plant	1,106,204	0	0	(1,106,204)
Pupil Transportation	692,555	1,067	39,752	(651,736)
Operation of Non-Instructional Services	7,052	0	0	(7,052)
Operation of Food Services	507,657	165,582	342,686	611
Extracurricular Activities	861,032	148,743	33,320	(678,969)
Interest and Fiscal Charges	56,998	0	0	(56,998)
<i>Total Governmental Activities</i>	<u>\$13,386,016</u>	<u>\$771,871</u>	<u>\$1,014,158</u>	<u>(11,599,987)</u>
General Revenues				
Property Taxes Levied for:				
				2,161,119
				535,057
				42,097
Grants and Entitlements not				
				7,929,019
				7,653
				73,731
				<u>10,748,676</u>
				Change in Net Position (851,311)
				Net Position Beginning of Year 22,385,450
				<u>Net Position End of Year \$21,534,139</u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

Balance Sheet
Governmental Funds
June 30, 2014

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,359,171	\$351,771	\$381,561	\$2,092,503
Cash and Cash Equivalents:				
In Segregated Accounts	20,652	0	265,976	286,628
Accrued Interest Receivable	0	0	1,136	1,136
Accounts Receivable	498	0	0	498
Interfund Receivable	39,146	0	0	39,146
Intergovernmental Receivable	0	0	96,699	96,699
Property Taxes Receivable	2,204,160	546,909	43,953	2,795,022
<i>Total Assets</i>	<u>\$3,623,627</u>	<u>\$898,680</u>	<u>\$789,325</u>	<u>\$5,311,632</u>
Liabilities				
Accounts Payable	\$36,770	\$3,240	\$35,968	\$75,978
Accrued Wages and Benefits Payable	769,097	0	41,451	810,548
Contracts Payable	0	9,517	42,820	52,337
Intergovernmental Payable	250,223	0	9,701	259,924
Interfund Payable	0	0	39,146	39,146
<i>Total Liabilities</i>	<u>1,056,090</u>	<u>12,757</u>	<u>169,086</u>	<u>1,237,933</u>
Deferred Inflows of Resources				
Property Taxes	1,875,422	465,136	37,451	2,378,009
Unavailable Revenue - Property Taxes	262,692	65,422	5,225	333,339
Unavailable Revenue - Intergovernmental	0	0	96,699	96,699
<i>Total Deferred Inflows of Resources</i>	<u>2,138,114</u>	<u>530,558</u>	<u>139,375</u>	<u>2,808,047</u>
Fund Balances				
Restricted	0	355,365	563,646	919,011
Assigned	235,100	0	0	235,100
Unassigned (Deficit)	194,323	0	(82,782)	111,541
<i>Total Fund Balances</i>	<u>429,423</u>	<u>355,365</u>	<u>480,864</u>	<u>1,265,652</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$3,623,627</u>	<u>\$898,680</u>	<u>\$789,325</u>	<u>\$5,311,632</u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2014*

Total Governmental Fund Balances		\$1,265,652
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,117,601
Other long-term assets are not available to pay for current- period expenditures and therefore are reported as unavailable revenue in the funds:		
Delinquent Property Taxes	333,339	
Intergovernmental Grants	<u>96,699</u>	
Total		430,038
In the statement of activities, interest is accrued on outstanding leases whereas in governmental funds, an interest expenditure is reported when due.		(7,825)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences	(383,800)	
Capital Leases	<u>(887,527)</u>	
Total		<u>(1,271,327)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$21,534,139</u></u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,211,459	\$547,987	\$43,162	\$2,802,608
Tuition and Fees	270,037	0	0	270,037
Interest	0	0	7,653	7,653
Charges for Services	180,727	0	165,582	346,309
Extracurricular Activities	51,005	0	104,520	155,525
Contributions and Donations	13,194	0	20,126	33,320
Intergovernmental	7,865,894	91,811	999,997	8,957,702
Miscellaneous	73,631	0	100	73,731
<i>Total Revenues</i>	<u>10,665,947</u>	<u>639,798</u>	<u>1,341,140</u>	<u>12,646,885</u>
Expenditures				
Current:				
Instruction:				
Regular	4,023,022	10,895	56,838	4,090,755
Special	1,807,447	0	614,791	2,422,238
Vocational	41,763	0	0	41,763
Support Services:				
Pupils	789,531	0	0	789,531
Instructional Staff	189,655	129,976	5,400	325,031
Board of Education	25,230	0	0	25,230
Administration	796,418	0	28,754	825,172
Fiscal	298,389	8,466	1,104	307,959
Business	819,520	0	512	820,032
Operation and Maintenance of Plant	1,062,491	610	38,596	1,101,697
Pupil Transportation	599,959	0	48,500	648,459
Operation of Non-Instructional Services	3,087	0	0	3,087
Operation of Food Services	0	0	505,836	505,836
Extracurricular Activities	236,808	0	151,112	387,920
Capital Outlay	0	144,238	42,820	187,058
Debt Service:				
Principal Retirement	0	323,818	0	323,818
Interest and Fiscal Charges	0	59,853	0	59,853
<i>Total Expenditures</i>	<u>10,693,320</u>	<u>677,856</u>	<u>1,494,263</u>	<u>12,865,439</u>
<i>Net Change in Fund Balances</i>	(27,373)	(38,058)	(153,123)	(218,554)
<i>Fund Balance Beginning of Year</i>	456,796	393,423	633,987	1,484,206
<i>Fund Balance End of Year</i>	<u>\$429,423</u>	<u>\$355,365</u>	<u>\$480,864</u>	<u>\$1,265,652</u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds (\$218,554)

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

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

Capital Outlay	11,798
Current Year Depreciation	(818,461)

Total (806,663)

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

Delinquent Property Taxes	(64,335)
Intergovernmental Grants	(47,845)

Total (112,180)

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

323,818

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest on Leases	2,855
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(40,587)

Change in Net Position of Governmental Activities

(\$851,311)

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

*Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$2,421,800	\$2,225,000	\$2,214,052	(\$10,948)
Tuition and Fees	312,827	285,477	269,972	(15,505)
Contributions and Donations	13,150	12,000	13,194	1,194
Intergovernmental	6,905,660	7,806,914	7,865,894	58,980
Miscellaneous	175,328	160,000	222,103	62,103
<i>Total Revenues</i>	<u>9,828,765</u>	<u>10,489,391</u>	<u>10,585,215</u>	<u>95,824</u>
Expenditures				
Current:				
Instruction:				
Regular	4,565,613	4,685,613	4,113,965	571,648
Special	2,054,700	2,054,700	1,837,885	216,815
Vocational	42,700	42,700	42,080	620
Support Services:				
Pupils	827,563	842,063	787,990	54,073
Instructional Staff	181,248	188,748	207,345	(18,597)
Board of Education	20,536	20,536	29,277	(8,741)
Administration	839,232	839,232	800,050	39,182
Fiscal	311,109	311,109	320,636	(9,527)
Business	840,890	840,890	823,206	17,684
Operation and Maintenance of Plant	1,112,766	1,112,766	1,102,638	10,128
Pupil Transportation	634,918	634,918	629,903	5,015
Operation of Non-Instructional Services	5,500	5,500	4,087	1,413
Extracurricular Activities	184,100	184,100	187,390	(3,290)
<i>Total Expenditures</i>	<u>11,620,875</u>	<u>11,762,875</u>	<u>10,886,452</u>	<u>876,423</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,792,110)</u>	<u>(1,273,484)</u>	<u>(301,237)</u>	<u>972,247</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditure	0	55,197	55,197	0
Advances In	0	5,000	0	(5,000)
Advances Out	0	(50,000)	(35,000)	15,000
Transfers Out	0	(100,000)	0	100,000
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(89,803)</u>	<u>20,197</u>	<u>110,000</u>
<i>Net Change in Fund Balance</i>	(1,792,110)	(1,363,287)	(281,040)	1,082,247
<i>Fund Balance Beginning of Year</i>	1,284,596	1,284,596	1,284,596	0
<i>Prior Year Encumbrances Appropriated</i>	91,111	91,111	91,111	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$416,403)</u>	<u>\$12,420</u>	<u>\$1,094,667</u>	<u>\$1,082,247</u>

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Cash and Cash Equivalents in Segregated Accounts	\$0	\$40,150
Investments in Segregated Accounts	68,835	0
Accrued Interest Receivable	62	0
<i>Total Assets</i>	<u>68,897</u>	<u>\$40,150</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$40,150</u>
Net Position		
Held in Trust for Scholarships	<u>\$68,897</u>	

See accompanying notes to the basic financial statements

East Palestine City School District
Columbiana County, Ohio

Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

	<u>Private Purpose Trust</u>
Additions	
Interest	\$177
Deductions	
Payments in Accordance with Trust Agreements	<u>982</u>
<i>Change in Net Position</i>	(805)
<i>Net Position Beginning of Year</i>	<u>69,702</u>
<i>Net Position End of Year</i>	<u><u>\$68,897</u></u>

See accompanying notes to the basic financial statements

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 1 - Description of the District

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

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provides financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District does not have any component units.

The District is involved with the Area Cooperative Computerized Educational Service System (ACCESS) and Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 19. The East Palestine Public Library and the East Palestine City School District Education Foundation are related organizations of the District, which is presented in Note 18 to the basic financial statements. The District is also involved with the Portage Area School Consortium Health and Welfare Insurance Pool, a shared risk pool, which is presented in Note 17.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Government-wide Financial Statements The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

B. Fund Accounting

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

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

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

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

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of net position and balance sheets will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, there were no deferred outflows of resources to report.

In addition to liabilities, the statements of net position and balance sheets report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

E. Cash and Investments

To improve cash management, all cash received by the District is pooled. Monies for all funds (except for cash and investments in segregated accounts) are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the balance sheet.

The School District did not have any investments during the fiscal year ending June 30, 2014.

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Investment earnings credited to the general fund during fiscal year 2014 amounted to zero, which includes a negative \$4,222 assigned from other District funds.

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

F. Capital Assets

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

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

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

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

G. Interfund Balances

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

H. Compensated Absences

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

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

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

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

I. Accrued Liabilities and Long-term Obligations

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

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

J. Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include operation of instructional services, food service operations and extracurricular activities.

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

K. Fund Balance

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

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

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

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Assigned Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education, which may be expressed by a motion but need not be passed by formal action, such as a Board Resolution.

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

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

L. Interfund Activity

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

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2014.

N. Estimates

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

O. Budgetary Data

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

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Treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

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

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.

Note 3 – Change in Accounting Principles

For fiscal year 2014, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities", Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62", Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees."

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the District's fiscal year 2014 financial statements, however, there was no effect on beginning fund balance/net position.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

GASB Statement No. 67 establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the District.

GASB Statement No. 70 improves the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

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For the Fiscal Year Ended June 30, 2014

Note 4 - Budgetary Basis of Accounting

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

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$27,373)
Net Adjustment for Revenue Accruals	(31,606)
Net Adjustment for Expenditure Accruals	62,209
Advance Out	(35,000)
Net Adjustment for Funds Budgeted as Special Revenue	6,071
Adjustment for Encumbrances	(255,341)
Budget Basis	<u>(\$281,040)</u>

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 5 – Fund Deficits

Fund balances at June 30, 2014 included the following individual fund deficits:

<u>Nonmajor Governmental Funds:</u>	<u>Deficit</u>
IDEA Part B	\$1,343
Title I	30,287
Improving Teacher Quality	45,633
Miscellaneous Federal Grants	5,519

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

Note 6 - Deposits and Investments

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

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

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

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

Interim monies held by the District can be deposited or invested in the following securities:

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

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5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

Custodial Credit Risk Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

At June 30, 2014, the carrying value amount of all the District's deposits was \$2,488,116. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", as of June 30, 2013, \$1,881,0094 of the District's bank balance of \$2,495,929 was exposed to custodial risk as described below, meaning \$614,835 was covered by the Federal Deposit Insurance Corporation (FDIC).

B. Cash in Segregated Accounts

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

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For the Fiscal Year Ended June 30, 2014

C. Reconciliation of Cash and Investments to the Statement of Net positions

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the Statement of Net Position as of June 30, 2014:

Cash and Investments per Note Disclosure

Carrying amount of deposits	\$2,488,116
Investments	0
Cash on hand	0
Total	<u>\$2,488,116</u>

Cash and Investments per Statement of Net Position

Governmental activities	\$2,379,131
Private-purpose trust funds	68,835
Agency funds	40,150
Total	<u>\$2,488,116</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenue received in calendar 2014 represent collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 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.

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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For the Fiscal Year Ended June 30, 2014

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2014 was \$66,046 in the general fund, \$16,351 in the permanent improvement capital projects fund and \$1,277 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2013 was \$68,639 in the general fund, \$17,099 in the permanent improvement capital projects fund and \$1,315 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$102,281,380	83.20 %	\$102,439,500	82.71 %
Commercial Industrial	13,944,100	11.34	14,086,180	11.37
Public Utility	6,714,180	5.46	7,331,920	5.92
Total	<u>\$122,939,660</u>	<u>100.00 %</u>	<u>\$123,857,600</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$26.80		\$26.80	

Note 8 - Receivables

Receivables at June 30, 2014, consisted of taxes, accounts (rent, student fees and tuition), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year.

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

Governmental Activities:	
Property Taxes	\$2,795,022
Intergovernmental	96,699
Accrued Interest	1,136
Accounts	498
Total Receivables	<u>\$2,893,355</u>

East Palestine City School District

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For the Fiscal Year Ended June 30, 2014

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$475,814	\$0	\$0	\$475,814
 <i>Capital assets being depreciated:</i>				
Land Improvements	3,584,787	0	0	3,584,787
Buildings and Building Improvements	26,446,548	0	0	26,446,548
Furniture and Equipment	786,259	11,798	0	798,057
Vehicles	845,627	0	0	845,627
 <i>Total capital assets being depreciated</i>	<u>31,663,221</u>	<u>11,798</u>	<u>0</u>	<u>31,675,019</u>
 <i>Accumulated depreciation:</i>				
Land Improvements	(1,108,704)	(170,765)	0	(1,279,469)
Buildings and Building Improvements	(7,873,391)	(578,793)	0	(8,452,184)
Furniture and Equipment	(559,121)	(41,426)	0	(600,547)
Vehicles	(673,555)	(27,477)	0	(701,032)
 <i>Total accumulated depreciation</i>	<u>(10,214,771)</u>	<u>(818,461) *</u>	<u>0</u>	<u>(11,033,232)</u>
 Capital assets being depreciated, net	<u>21,448,450</u>	<u>(806,663)</u>	<u>0</u>	<u>20,641,787</u>
 Governmental activities capital assets, net	<u>\$21,924,264</u>	<u>(\$806,663)</u>	<u>\$0</u>	<u>\$21,117,601</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$371,119
Support Services:	
Instructional Staff	14,694
Board of Education	324
Operation and Maintenance of Plant	814
Pupil Transportation	24,986
Operation of Non-Instructional Services	1,019
Operation of Food Services	3,746
Extracurricular	401,759
 Total Depreciation Expense	<u>\$818,461</u>

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 10 – Fund Balances

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

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

Fund Balances	General	Permanent Improvement	Nonmajor Governmental	Total
<i>Restricted for</i>				
Capital Projects	\$0	\$355,365	\$282,512	\$637,877
Classroom Facilities Maintenance	0	0	29,563	29,563
Food Service Operations	0	0	162,292	162,292
Extracurricular Activities	0	0	72,645	72,645
Other Purposes	0	0	16,634	16,634
<i>Total Restricted</i>	0	355,365	563,646	919,011
<i>Assigned to</i>				
Encumbrances	235,100	0	0	235,100
<i>Unassigned (Deficit)</i>	194,323	0	(82,782)	111,541
<i>Total Fund Balances (Deficit)</i>	\$429,423	\$355,365	\$480,864	\$1,265,652

Note 11 – Long-Term Obligations

The changes in the District’s long-term obligations during fiscal year 2014 were as follows:

	Balance at 06/30/13	Increases	Decreases	Balance at 06/30/14	Due in One Year
Capital Leases Payable	\$1,211,345	\$0	(\$323,818)	\$887,527	341,174
Compensated absences	343,213	67,792	(27,205)	383,800	36,188
Total Long-Term Obligations	1,554,558	67,792	(351,023)	1,271,327	377,362

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

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

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

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The effects of these debt limitations at June 30, 2014 are a legal voted debt margin of \$11,147,184, a legal unvoted debt margin of \$123,858, and a legal energy conservation debt margin of \$1,114,718.

Note 12 – Capitalized Leases

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

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

A corresponding liability was recorded in the governmental activities statement of net position of the District and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

The following is a schedule of the future long term minimum lease payments required under the capital lease obligation and the present value of the future minimum lease payments as of June 30, 2014:

<u>Fiscal Year Ending June 30,</u>		
2015		\$383,671
2016		383,671
2017		191,836
Total Minimum Lease Payments		<u>959,178</u>
Less: Amount Representing Interest		<u>(71,651)</u>
Present Value of Minimum Lease		<u><u>\$887,527</u></u>

Note 13 – Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending

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For the Fiscal Year Ended June 30, 2014

June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$168,710, \$171,065 and \$158,576, respectively; 67 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options - New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members transfer to the DB Plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

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Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or other Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by three percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013 until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. The District was required to contribute 14 percent, 13 percent was the portion used to fund pension obligations.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$565,248, \$598,773 and \$540,299, respectively; 86 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$29,324 made by the School District and \$23,041 made by the plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2013 *Comprehensive Annual Financial Report* are available.

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Additional information or copies of STRS Ohio's 2013 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, or by calling toll free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose social security or the SERS or STRS Ohio. As of June 30, 2014, one Board of Education member has elected social security. The Board's liability is 6.2 percent of wages paid.

Note 14 – Post-employment Benefits

A. School Employees Retirement System

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan – The Medicare Part 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50 if they participated in one of SERS' health care plans.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation is 0.76 percent. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$9,789, \$9,663 and \$9402, respectively, 67 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

Health Care Plan – 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, Medicare Advantage, 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 Section 105(e). 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. For the year ended June 30, 2014, the health care allocation is 0.14 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$21,123, \$21,685 and \$6,895, respectively; 67 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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. That report can be obtained on SERS' website at www.ohsers.org, under *Employers/Audit Resources*.

B. State Teachers Retirement System

Plan Description - STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issued as stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll free (888) 227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. 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, 2014, 2013 and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$43,841, \$46,059 and \$41,561, respectively; 86 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

Note 15 – Other Employee Benefits

A. Compensated Absences

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

B. Life Insurance

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

Note 16 – Statutory Reserves

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

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

	Capital Improvements
Set-Aside Balance as of June 30, 2013	\$0
Current Year Set-Aside Requirement	205,799
Current Year Offsets	(690,703)
Total	<u>(\$484,904)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Cash balance as of June 30, 2014	<u>\$0</u>

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

Note 17 - Risk Management

A. General Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the District has property and liability coverage as follows:

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

B. Fidelity Bond

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

C. Workers' Compensation

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

D. Employee Health Insurance

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

Note 18 – Related Organizations

The East Palestine Public Library (the "Library") is a related organization to the District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library's operation, nor does the Library represent a potential financial benefit or burden to the District. The District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the District during the fiscal year 2014.

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 19 – Jointly Governed Organizations

A. Area Cooperative Computerized Educational Service System/ACCESS Assembly

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

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

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

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

All ACCESS revenues are generated from charges for services and State funding. Each of the members supports the ACCESS Assembly based upon a per pupil charge. The District paid \$21,306 to ACCESS during fiscal year 2014. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 220, Youngstown, Ohio, 44512.

B. Columbiana County Career Center

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

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

East Palestine City School District

Columbiana County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 20 - Interfund Balances

The interfund receivable/payable balances consisted of the following at June 30, 2014, as reported on the fund financial statements:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Fund:		
General	\$39,146	\$0
Non-major Governmental Funds:		
Improving Teacher Quality	0	35,000
Miscellaneous Federal Grants	0	4,146
Total	<u>\$39,146</u>	<u>\$39,146</u>

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

Note 21 - Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

B. Litigation

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

C. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$255,341 in the general fund, \$187,811 in the permanent improvement fund and \$54,251 in the non-major governmental funds.

Note 22 - Subsequent Event

The District borrowed \$541,840 from Huntington Bank in December 2014 to help pay the costs of an energy conservation project related to House Bill 264. The loan will be repaid over 15 years with the District making two payments annually.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
UNITED STATES DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education:</i>					
<i>Nutrition Cluster:</i>					
<i>Non-Cash Assistance (Food Distribution):</i>					
National School Lunch Program	10.555		\$ 39,490		\$ 39,490
<i>Cash Assistance:</i>					
National School Breakfast Program	10.553	\$ 69,502		\$ 69,502	
National School Lunch Program	10.555	265,981		265,981	
Total U.S. Department of Agriculture		<u>335,483</u>	<u>39,490</u>	<u>335,483</u>	<u>39,490</u>
UNITED STATES DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	84.010	356,281		348,095	
Special Education Grants to States	84.027	278,119		275,629	
Rural Education	84.358	18,952		18,406	
Improving Teacher Quality State Grants (Title II-A)	84.367	51,743		87,443	
<i>Passed Through Mahoning County Educational Service Center:</i>					
Special Education Grants to States	84.027	0		11,270	
Total U.S. Department of Education		<u>705,095</u>		<u>740,843</u>	
Totals		<u><u>\$1,040,578</u></u>	<u><u>\$39,490</u></u>	<u><u>\$1,076,326</u></u>	<u><u>\$39,490</u></u>

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

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Note A – Significant Accounting Policies

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

Note B – Child Nutrition Cluster

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

Note C – Food Donation

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

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

January 30, 2015

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **East Palestine City School District**, Columbiana County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

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Marietta, Ohio

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

January 30, 2015

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the **East Palestine City School District's** (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the East Palestine City School District's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of audit findings identifies the District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the East Palestine City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



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

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF AUDIT FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster: School Breakfast Program – CFDA #10.553 & National School Lunch Program – CFDA #10.555 Title I Cluster: Title I Grants to Local Educational Agencies – CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Finding for Recovery	Yes	N/A
2013-002	Single Audit Deadline	Yes	N/A



Dave Yost • Auditor of State

EAST PALESTINE CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 14, 2015**