

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

RICK ELLIS, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
East Palestine City School District
200 West North Avenue
East Palestine, Ohio 44413-1797

We have reviewed the *Independent Auditor's Report* of the East Palestine City School District, Columbiana County, prepared by Julian and Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 8, 2008

This Page is Intentionally Left Blank.

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

TABLE OF CONTENTS

Independent Auditor’s Report.....	1 - 2
Management’s Discussion and Analysis.....	3 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund.....	18
Statement of Fund Net Assets - Internal Service Fund.....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Fund	20
Statement of Cash Flows - Internal Service Fund	21
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	22
Notes to the Basic Financial Statements	23 - 48
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards.....	49
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	50 - 51
Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	52 - 53
Schedule of Findings and Responses <i>OMB Circular A-133 § .505</i>	54 - 57
Status of Prior Audit Findings <i>OMB Circular A-133 § .505</i>	58



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise the East Palestine City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the East Palestine City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

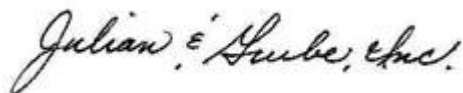
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007, on our consideration of the East Palestine City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Julian & Grube, Inc.
December 10, 2007

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The management's discussion and analysis of the East Palestine City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- General Revenues accounted for \$9,964,287 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,349,590 or 19 percent of total revenues of \$12,313,877.
- Total program expenses were \$11,842,325.
- Net assets of governmental activities increased \$471,552, which represents a 2 percent increase from 2006.
- Outstanding note, bonded debt and capital lease liability increased from \$2,219,731 to \$4,320,675 through additional debt being issued.

Using this Annual Financial Report

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

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

(Table 1)
Net Assets

	Governmental Activities	
	2007	2006
Assets		
Current and Other Assets	\$ 7,432,511	\$ 6,081,445
Capital Assets	24,988,381	23,613,087
Total Assets	32,420,892	29,694,532
Liabilities		
Long-Term Liabilities	4,894,131	2,780,650
Other Liabilities	4,924,652	4,783,325
Total Liabilities	9,818,783	7,563,975
Net Assets		
Invested in Capital Assets Net of Debt	22,263,542	21,403,987
Restricted	760,699	1,315,891
Unrestricted (Deficit)	(422,132)	(589,321)
Total Net Assets	\$ 22,602,109	\$ 22,130,557

Total governmental assets increased by \$2,726,360. The majority of the increase is due from cash proceeds of a capital lease for the construction of a new stadium. An increase of \$1,375,294 in total capital assets reflects current year additions exceeding depreciation. Total governmental liabilities increased by \$2,254,808, which can primarily be attributed to increases in contracts payable and capital leases payable.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

The School District as a Whole (Continued)

Table 2 shows the changes in net assets for fiscal year 2007 and 2006. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

(Table 2)
Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
<i>Revenues</i>		
<i>Program Revenues:</i>		
Charges for Services	\$ 656,139	\$ 676,309
Operating Grants	1,620,916	1,611,225
Capital Grants	72,535	0
<i>General Revenue:</i>		
Property Taxes	3,195,279	3,573,031
Grants and Entitlements	6,638,232	6,572,996
Other	130,776	74,910
<i>Total Revenues</i>	12,313,877	12,508,471
<i>Program Expenses</i>		
Instruction	6,777,209	6,449,019
Support Services	4,056,777	4,604,040
Operation of Non-Instructional	473,655	614,752
Extracurricular Activities	372,501	371,293
Interest and Fiscal Charges	162,183	32,326
<i>Total Expenses</i>	11,842,325	12,071,430
Increase (Decrease) in Net Assets	\$ 471,552	\$ 437,041

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental activities had total revenues of \$12,313,877 and expenses of \$11,842,325.

(Table 3)
Governmental Activities
Cost of Services

	2007	2006	2007	2006
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 6,777,209	\$ 6,449,019	\$ (5,294,426)	\$ (4,964,124)
Support Services:				
Pupil and Instructional Staff	1,110,826	1,039,395	(1,038,183)	(966,153)
Board of Education, Administration, Fiscal and Business	1,407,936	1,566,675	(1,407,936)	(1,566,675)
Operation and Maintenance of Plant	1,055,741	1,427,077	(937,225)	(1,402,298)
Pupil Transportation	481,854	570,893	(473,206)	(564,956)
Central	419	0	(419)	0
Operation of Non-Instructional	473,655	614,752	21,601	(115,053)
Extracurricular Activities	372,501	371,293	(200,757)	(172,311)
Interest and Fiscal Charges	162,184	32,326	(162,184)	(32,326)
Total Expenses	<u>\$ 11,842,325</u>	<u>\$ 12,071,430</u>	<u>\$ (9,492,735)</u>	<u>\$ (9,783,896)</u>

Instruction and student support services comprise 67 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 13 percent of governmental program expenses.

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

The School District's Funds

Information about the School District's governmental funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,233,796 and expenditures of \$15,588,204. The net change in fund balance for the fiscal year was an increase of \$1,080,075. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ (55,083)	\$ (179,533)	\$ 124,450	(69.32) %
Bond Retirement	75,217	266,046	(190,829)	(71.73) %
Stadium Project	1,130,684	23,756	1,106,928	4,659.57 %
Other Governmental	<u>754,842</u>	<u>715,316</u>	<u>39,526</u>	<u>5.53 %</u>
Total	<u>\$ 1,905,660</u>	<u>\$ 825,585</u>	<u>\$ 1,080,075</u>	<u>130.83 %</u>

General Fund

The \$124,450 increase in the School District's general fund's fund balance was slightly lower than the change in fund balance for fiscal year ending June 30, 2006 of \$197,101.

Bond Retirement Fund

The decrease in the Bond Retirement fund's fund balance reflects a decrease in proceeds from notes and principal retirement expense over the fiscal year ending June 30, 2006.

Stadium Project Fund

The Stadium Project Fund had over 2.9 million in new capital leases and \$1.9 million in capital outlay expense which accounts for the increase in fund balance over the fiscal year ending June 30, 2006.

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the School District did modify its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, final budget basis revenue, including other financing sources, was \$9,768,296, over the original budget estimates of \$9,562,977. Of this \$205,319 increase, most was attributable to increased taxes and intergovernmental revenue. Actual revenue, including other financing sources, was \$9,683,076. This amount was lower than final budget basis revenue of \$9,768,296 by \$85,220.

Final appropriations, including other financing uses, of \$10,453,222 were \$71,652 higher than the \$10,381,570 in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Actual expenditures, including other financing uses, were \$9,699,398 which was lower than final appropriations of \$10,453,222 by \$753,824.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$24,988,381 invested in land, construction in progress, land improvements, buildings, and building improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared with 2006. More detailed information is presented in note 7 of the notes to the basic financial statements.

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

	Governmental Activities	
	2007	2006
Land	\$ 475,814	\$ 475,814
Buildings and Building Improvements	22,187,982	22,775,711
Furniture and Equipment	181,454	218,783
Vehicles	88,609	142,779
Construction in Progress	2,054,522	0
Totals	\$ 24,988,381	\$ 23,613,087

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

Capital Assets and Debt Administration (Continued)

The \$1,375,294 increase in capital assets was attributable to current year additions exceeding depreciation expense, primarily resulting from the construction of a new stadium.

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks. For fiscal year 2007, this amounted to \$208,424 for each set aside. The School District had qualifying disbursements or offsets exceeding these requirements for capital improvements. The School District has budgeted to meet these requirements.

Debt

At June 30, 2007, the School District had \$4,320,675 in debt outstanding with \$1,721,210 of it due within one year. During fiscal year 2007, \$2,175,799 of bonds were retired. The School District reissued \$1,484,483 of bond anticipation notes during fiscal year 2007. See note 9 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2007	Governmental Activities 2006
Capital Lease	\$ 2,836,192	\$ 33,301
Bond Premium	0	10,631
Energy Conservation Bonds	0	49,579
Bond Anticipation Notes	1,484,483	2,126,220
Totals	\$ 4,320,675	\$ 2,219,731

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

East Palestine City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007

Current Issues

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

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26% of revenues for governmental activities for the East Palestine City School District in fiscal year 2007.

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

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

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

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

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

Contacting the School District's Financial Management

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

East Palestine City School District

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,910,586
Cash and Cash Equivalents:	
In Segregated Accounts	196,108
With Fiscal Agents	200,553
Investments in Segregated Accounts	513,432
Receivables:	
Taxes	3,441,237
Intergovernmental	164,376
Inventory Held For Resale	6,219
Nondepreciable Capital Assets	2,530,336
Depreciable Capital Assets (Net)	<u>22,458,045</u>
<i>Total Assets</i>	<u>32,420,892</u>
Liabilities	
Accounts Payable	28,115
Contracts Payable	605,741
Accrued Wages and Benefits	893,341
Compensated Absences Payable	23,011
Intergovernmental Payable	307,850
Deferred Revenue	2,861,835
Accrued Interest Payable	8,163
Claims Payable	196,596
Due Within One Year	1,757,539
Due In More Than One Year	<u>3,136,592</u>
<i>Total Liabilities</i>	<u>9,818,783</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	22,263,542
Restricted for:	
Capital Projects	169,442
Debt Service	205,160
Other Purposes	282,105
Set Asides	103,992
Unrestricted	<u>(422,132)</u>
<i>Total Net Assets</i>	<u>\$ 22,602,109</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 5,023,495	\$ 301,707	\$ 110,914	\$ 0	\$ (4,610,874)
Special	1,631,450	0	1,070,162	0	(561,288)
Vocational	122,264	0	0	0	(122,264)
Support Services:					
Pupils	643,141	0	55,943	0	(587,198)
Instructional Staff	467,685	0	16,700	0	(450,985)
Board of Education	52,633	0	0	0	(52,633)
Administration	639,304	0	0	0	(639,304)
Fiscal	259,328	0	0	0	(259,328)
Business	456,671	0	0	0	(456,671)
Operation and Maintenance of Plant	1,055,741	0	54,629	63,887	(937,225)
Pupil Transportation	481,854	0	0	8,648	(473,206)
Central	419	0	0	0	(419)
Operation of Non-Instructional Services:					
Food Service Operations	463,190	193,468	292,589	0	22,867
Community Services	10,465	0	9,199	0	(1,266)
Extracurricular Activities	372,501	160,964	10,780	0	(200,757)
Interest and Fiscal Charges	162,184	0	0	0	(162,184)
Totals	\$ 11,842,325	\$ 656,139	\$ 1,620,916	\$ 72,535	(9,492,735)

General Revenues

Property Taxes Levied for:

General Purposes	2,096,112
Debt Service	526,056
Capital Outlay	573,111
Grants and Entitlements not Restricted to Specific Programs	6,638,232
Investment Earnings	125,916
Miscellaneous	4,860

Total General Revenues 9,964,287

Change in Net Assets 471,552

Net Assets Beginning of Year 22,130,557

Net Assets End of Year \$ 22,602,109

See accompanying notes to the basic financial statements.

East Palestine City School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Bond Retirement	Stadium Project	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 820,774	\$ 50,899	\$ 1,292,205	\$ 570,735	\$ 2,734,613
Cash and Cash Equivalents In Segregated Accounts	0	0	0	196,108	196,108
Investments in Segregated Accounts	0	0	446,543	66,889	513,432
Receivables:					
Taxes	2,281,851	567,752	0	591,634	3,441,237
Interfund	58,701	0	0	0	58,701
Intergovernmental	0	0	0	164,376	164,376
Inventory Held For Resale	0	0	0	6,219	6,219
Restricted Cash and Cash Equivalents	118,576	0	0	0	118,576
<i>Total Assets</i>	<u>\$ 3,279,902</u>	<u>\$ 618,651</u>	<u>\$ 1,738,748</u>	<u>\$ 1,595,961</u>	<u>\$ 7,233,262</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 13,193	\$ 200	\$ 2,323	\$ 12,399	\$ 28,115
Contracts Payable	0	0	605,741	0	605,741
Accrued Wages and Benefits	821,249	0	0	72,092	893,341
Compensated Absences Payable	23,011	0	0	0	23,011
Interfund Payable	0	0	0	58,701	58,701
Intergovernmental Payable	304,929	0	0	2,921	307,850
Deferred Revenue	2,172,603	543,234	0	695,006	3,410,843
<i>Total Liabilities</i>	<u>3,334,985</u>	<u>543,434</u>	<u>608,064</u>	<u>841,119</u>	<u>5,327,602</u>
Fund Balances					
Reserved for Encumbrances	191,919	0	12,460	46,707	251,086
Reserved for Bus Purchase Allowance	14,584	0	0	0	14,584
Reserved for Property Taxes	109,248	24,518	0	30,017	163,783
Reserved for Textbook/Instructional Materials	103,992	0	0	0	103,992
Unreserved, Undesignated, Reported in:					
General Fund	(474,826)	0	0	0	(474,826)
Special Revenue Funds	0	0	0	413,841	413,841
Debt Service Fund	0	50,699	0	0	50,699
Capital Projects Funds	0	0	1,118,224	264,277	1,382,501
<i>Total Fund Balances</i>	<u>(55,083)</u>	<u>75,217</u>	<u>1,130,684</u>	<u>754,842</u>	<u>1,905,660</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,279,902</u>	<u>\$ 618,651</u>	<u>\$ 1,738,748</u>	<u>\$ 1,595,961</u>	<u>\$ 7,233,262</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total Governmental Fund Balances	\$	1,905,660
---	----	-----------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		24,988,381
--	--	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 133,389	
Delinquent Property Taxes	415,619	549,008

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		61,354
--	--	--------

In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.		(8,163)
---	--	---------

Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bond Anticipation Notes	(1,484,483)	
Compensated Absences	(573,456)	
Capital Leases Payable	(2,836,192)	(4,894,131)

<i>Net Assets of Governmental Activities</i>	\$	22,602,109
--	----	------------

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Bond Retirement	Stadium Project	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,054,061	\$ 540,095	\$ 0	\$ 561,641	\$ 3,155,797
Intergovernmental	6,996,617	68,934	0	1,184,795	8,250,346
Interest	0	0	119,155	6,761	125,916
Tuition and Fees	301,707	0	0	0	301,707
Extracurricular Activities	0	0	0	160,964	160,964
Charges for Services	0	0	0	193,468	193,468
Contributions and Donations	13,000	0	0	19,979	32,979
Miscellaneous	3,216	0	0	9,403	12,619
<i>Total Revenues</i>	<u>9,368,601</u>	<u>609,029</u>	<u>119,155</u>	<u>2,137,011</u>	<u>12,233,796</u>
Expenditures					
Current:					
Instruction:					
Regular	4,246,016	0	0	97,055	4,343,071
Special	994,241	0	0	637,491	1,631,732
Vocational	121,493	0	0	0	121,493
Support Services:					
Pupils	596,578	0	0	41,672	638,250
Instructional Staff	383,050	0	0	74,132	457,182
Board of Education	47,862	0	0	0	47,862
Administration	605,926	0	0	50,679	656,605
Fiscal	214,048	16,429	0	27,655	258,132
Business	456,671	0	0	0	456,671
Operation and Maintenance of Plant	925,440	0	0	135,378	1,060,818
Pupil Transportation	424,969	0	0	2,519	427,488
Central	419	0	0	0	419
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	455,426	455,426
Community Services	1,500	0	0	8,965	10,465
Extracurricular activities	192,279	0	0	170,668	362,947
Capital outlay	0	0	1,962,227	204,009	2,166,236
Debt service:					
Principal retirement	33,301	2,175,799	0	113,808	2,322,908
Interest and fiscal charges	358	92,113	0	78,028	170,499
<i>Total Expenditures</i>	<u>9,244,151</u>	<u>2,284,341</u>	<u>1,962,227</u>	<u>2,097,485</u>	<u>15,588,204</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>124,450</u>	<u>(1,675,312)</u>	<u>(1,843,072)</u>	<u>39,526</u>	<u>(3,354,408)</u>
Other Financing Sources (Uses)					
Proceeds of Notes	0	1,484,483	0	0	1,484,483
Inception of Capital Lease	0	0	2,950,000	0	2,950,000
<i>Total Financing Sources (Uses)</i>	<u>0</u>	<u>1,484,483</u>	<u>2,950,000</u>	<u>0</u>	<u>4,434,483</u>
<i>Net Change in Fund Balance</i>	124,450	(190,829)	1,106,928	39,526	1,080,075
<i>Fund Balance Beginning of Year</i>	<u>(179,533)</u>	<u>266,046</u>	<u>23,756</u>	<u>715,316</u>	<u>825,585</u>
<i>Fund Balance End of Year</i>	<u>\$ (55,083)</u>	<u>\$ 75,217</u>	<u>\$ 1,130,684</u>	<u>\$ 754,842</u>	<u>\$ 1,905,660</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 1,080,075

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

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

Capital Asset Additions	\$ 2,054,522	
Current Year Depreciation	<u>(679,228)</u>	1,375,294

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

Grants	48,358	
Delinquent Property Taxes	<u>39,482</u>	87,840

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

Bond Principal	2,175,799	
Capital Leases	<u>147,109</u>	2,322,908

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (2,316)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities.

Proceeds of Notes	(1,484,483)	
Capital Leases	<u>(2,950,000)</u>	(4,434,483)

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

Compensated Absences	(12,537)	
Bond Premium	<u>10,631</u>	(1,906)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities. 44,140

Change in Net Assets of Governmental Activities \$ 471,552

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 2,114,282	\$ 2,278,917	\$ 2,140,835	\$ (138,082)
Intergovernmental	6,909,839	6,982,132	6,996,617	14,485
Tuition and Fees	298,409	280,847	302,157	21,310
Rent	0	2,400	0	(2,400)
Contributions and Donations	12,839	4,000	13,000	9,000
Miscellaneous	3,176	15,000	3,216	(11,784)
<i>Total Revenues</i>	<u>9,338,545</u>	<u>9,563,296</u>	<u>9,455,825</u>	<u>(107,471)</u>
Expenditures				
Current				
Instruction:				
Regular	4,601,835	4,545,085	4,299,448	245,637
Special	1,071,273	935,303	1,000,880	(65,577)
Vocational	129,271	107,225	120,777	(13,552)
Support Services:				
Pupils	633,944	674,857	592,288	82,569
Instructional Staff	418,227	339,531	390,745	(51,214)
Board of Education	51,551	58,141	48,164	9,977
Administration	661,483	752,056	618,017	134,039
Fiscal	242,065	249,595	226,159	23,436
Business	547,783	541,096	511,788	29,308
Operation and Maintenance of Plant	1,048,519	1,277,749	979,621	298,128
Pupil Transportation	485,745	564,469	453,827	110,642
Central	448	0	419	(419)
Operation of Non-Instructional Services:				
Community Services	2,676	2,000	2,500	(500)
Extracurricular Activities:				
Academic Oriented Activities	75,681	70,415	66,565	3,850
Sport Oriented Activities	125,156	125,700	121,075	4,625
<i>Total Expenditures</i>	<u>10,095,657</u>	<u>10,243,222</u>	<u>9,432,273</u>	<u>810,949</u>
Excess of Revenues Over (Under) Expenditures	<u>(757,112)</u>	<u>(679,926)</u>	<u>23,552</u>	<u>703,478</u>
Other Financing Sources (Uses)				
Advances In	18,593	0	18,827	18,827
Advances Out	(62,830)	0	(58,701)	(58,701)
Transfers In	205,839	205,000	208,424	3,424
Transfers Out	(223,083)	(210,000)	(208,424)	1,576
<i>Total Other Financing Sources (Uses)</i>	<u>(61,481)</u>	<u>(5,000)</u>	<u>(39,874)</u>	<u>(34,874)</u>
<i>Net Change in Fund Balance</i>	<u>(818,593)</u>	<u>(684,926)</u>	<u>(16,322)</u>	<u>668,604</u>
<i>Fund Balance Beginning of Year</i>	495,099	495,099	495,099	0
Prior Year Encumbrances Appropriated	<u>257,027</u>	<u>257,027</u>	<u>257,027</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ (66,467)</u>	<u>\$ 67,200</u>	<u>\$ 735,804</u>	<u>\$ 668,604</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2007

	Governmental Activities Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 57,397
Cash with Fiscal Agents	<u>200,553</u>
<i>Total Assets</i>	<u>257,950</u>
Liabilities	
Claims Payable	<u>196,596</u>
Net Assets	
Unrestricted	<u><u>\$ 61,354</u></u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	\$ 1,332,063
Operating Expenses	
Fringe Benefits	21,906
Purchased Services	234,259
Claims	1,034,433
<i>Total Operating Expenses</i>	1,290,598
Operating Income	41,465
Non-Operating Revenue	
Interest	2,675
<i>Net Change in Net Assets</i>	44,140
<i>Net Assets Beginning of Year</i>	17,214
<i>Net Assets End of Year</i>	\$ 61,354

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 1,332,063
Cash Paid for Goods and Services	(234,259)
Cash Paid to Employees	(21,906)
Cash Paid for Claims	<u>(947,869)</u>
<i>Net Cash Provided By Operating Activities</i>	<u>128,029</u>
Cash Flows From Investing Activities	
Interest on Investments	<u>2,675</u>
<i>Net Increase in Cash and Cash Equivalents</i>	130,704
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>127,246</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 257,950</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 41,465
Adjustments:	
Increase in Claims Payable	<u>86,564</u>
<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 128,029</u></u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	\$ 49,511
<i>Total Assets</i>	<u>49,511</u>
Liabilities	
Accounts Payable	\$ 1,110
Due to Students	48,401
<i>Total Liabilities</i>	<u>\$ 49,511</u>

See accompanying notes to the basic financial statements.

East Palestine City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

The East Palestine City School District (the "School District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2006, was 1,312. The School District employs 88 certificated and 40 non-certificated employees.

Reporting Entity

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

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

The School District is involved with Area Cooperative Computerized Educational Service System (ACCESS), and the Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 20. The East Palestine Public Library is a related organization of the School District, which is presented in Note 18 to the basic financial statements.

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

Note 2: Summary of Significant Accounting Policies

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

Stadium Project Fund The stadium project fund accounts for financial transactions relating to the constructing and improving of the stadium.

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

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

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

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

C. Measurement Focus

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

D. Basis of Accounting

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

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

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to certificates of deposit, overnight sweep accounts, Federal Home Loan Bank notes, Federal Home Loan Mortgage Corporation notes, and Federal National Mortgage Association discount notes.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. The School District's Board Resolution does not provide any interest allocation to the General Fund. Interest revenue credited to the Stadium Project Fund during fiscal year 2007 amounted to \$119,155, which includes \$77,437 assigned from other funds. Total interest revenue during fiscal year 2007 amounted to \$125,916.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

F. Inventory

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

Inventory consists of donated and purchased food held for resale.

G. Restricted Assets

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

H. Capital Assets

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

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

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

I. Interfund Balances

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

J. Compensated Absences

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

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

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

K. 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 propriety fund financial statements.

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2007, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities grants and extracurricular activities.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

M. Fund Balance Reserves

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

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

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

P. 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 2007.

Q. Estimates

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 2: Summary of Significant Accounting Policies (Continued)

R. Budgetary Data

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

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

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

Note 3: Budgetary Basis of Accounting

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 3: Budgetary Basis of Accounting (Continued)

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

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis	\$ 124,450
Net Adjustment for Revenue Accruals	87,224
Advances In	18,827
Net Adjustment for Expenditure Accruals	15,424
Advances Out	(58,701)
Encumbrances	<u>(203,546)</u>
 Budgetary Basis	 <u><u>\$ (16,322)</u></u>

Note 4: Fund Deficits

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ 55,083
Other Governmental Funds:	
Title I	91,295
Title VIB	18,736
Title II	8,398
Title V	1,701

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

Note 5: Deposits and Investments

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

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

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

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 5: Deposits and Investments (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 5: Deposits and Investments (Continued)

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

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2007, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$858,210. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2007, \$670,391 of the School District's bank balance of \$929,387 was exposed to custodial risk as discussed above, while \$258,996 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2007, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities				
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months	More than 24 Months
Federal Home Loan Mtg. Corp.	\$ 247,793	\$ 0	\$ 0	\$ 0	\$ 0	\$ 247,793
Federal National Mtg. Assoc.	198,750	0	0	0	0	198,750
Repurchase Agreement	2,364,884	2,364,884	0	0	0	0
Total	\$ 2,811,427	\$ 2,364,884	\$ 0	\$ 0	\$ 0	\$ 446,543

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 5: Deposits and Investments (Continued)

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

Credit Risk. The School District's investments in Federal Home Loan Mortgage Corp. and Federal National Mortgage Assoc. were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The repurchase agreement is an unrated investment.

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

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2007:

Investment Type	Fair Value	Percent of Total
Federal Home Loan Mtg. Corp.	\$ 247,793	8.81%
Federal National Mtg. Assoc.	198,750	7.07%
Repurchase Agreement	2,364,884	84.12%
Total	\$ 2,811,427	100.00%

Funds Held by Fiscal Agent

The School District participates in the Columbiana County Insurance Consortium for employee benefits. The bank balance at fiscal year end for the Employee Benefit Self-Insurance Fund was \$200,553. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Cash in Segregated Accounts

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

Investments in Segregated Accounts

Investments in segregated accounts at June 30, 2007 consist of securities on deposit with Multi-Bank Securities, Inc. in the amount of \$446,543 and \$66,889 invested in certificates of deposit.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 6: Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar year 2007 for real and public utility property taxes represent collections of calendar year 2006 taxes. Property tax payments received during calendar year 2007 for tangible personal property (other than public utility property) is for calendar year 2007 taxes.

2007 real property taxes were levied after April 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2007 public utility property taxes became a lien December 31, 2005, were levied after April 1, 2006, and were collected in 2006 with real property taxes.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out – the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers must pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable at September 20.

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

2007 tangible personal property taxes were levied after April 1, 2006 on the values as of December 31, 2006. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 6: Property Taxes (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006		2007	
	Second-Half Collections		First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and other real estate	\$ 94,350,160	78%	\$ 94,849,990	80%
Commercial Industrial	12,699,100	11%	12,706,730	11%
Tangible Personal Property	<u>13,795,840</u>	<u>11%</u>	<u>11,097,800</u>	<u>9%</u>
 Total Assessed Value	 <u>\$ 120,845,100</u>	 <u>100%</u>	 <u>\$ 118,654,520</u>	 <u>100%</u>
 Tax rate per \$1,000 of assessed value		 <u>\$ 36.10</u>		 <u>\$ 31.30</u>

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

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

The School District receives property taxes from Columbiana County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007 are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including East Palestine City School District. The County Auditor periodically remits to the District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the School District as an advance at June 30, 2007 was \$163,783.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 7: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2007 was as follows:

	Balance 06/30/2006	Additions	Reductions	Balance 06/30/2007
Governmental Activities:				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
Construction in progress	0	2,054,522	0	2,054,522
<i>Total capital assets, not being depreciated</i>	475,814	2,054,522	0	2,530,336
<i>Capital Assets, being depreciated:</i>				
Land Improvements	277,160	0	0	277,160
Building and building improvements	26,531,688	0	0	26,531,688
Furniture and equipment	548,171	0	0	548,171
Vehicles	843,769	0	0	843,769
<i>Total Capital Assets, being depreciated</i>	28,200,788	0	0	28,200,788
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(277,160)	0	0	(277,160)
Building and building improvements	(3,755,977)	(587,729)	0	(4,343,706)
Furniture and equipment	(329,388)	(37,329)	0	(366,717)
Vehicles	(700,990)	(54,170)	0	(755,160)
<i>Total Accumulated Depreciation</i>	(5,063,515)	(679,228) *	0	(5,742,743)
<i>Total Capital Assets being depreciated, net</i>	23,137,273	(679,228)	0	22,458,045
<i>Governmental Activities Capital Assets, net</i>	\$ 23,613,087	\$ 1,375,294	\$ 0	\$ 24,988,381

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 594,415
Support Services:	
Board of Education	
Instructional Staff	12,107
Board of Education	4,780
Operation and Maintenance	456
Pupil Transportation	50,152
Operation of Non-Instructional Services	7,764
Extracurricular Activities	9,554
Total Depreciation Expense	\$ 679,228

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 8: Receivables

Receivables at June 30, 2007, consisted of taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal Funds. All are expected to be received within one year.

Note 9: Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year 2007 were as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due in One Year
Energy Conservation Bonds, 4.21% interest rate, maturing April 2007	\$ 49,579	\$ 0	\$ (49,579)	\$ 0	\$ 0
Bond Anticipation Note, 4.50% interest rate, maturing June 2007	2,126,220	0	(2,126,220)	0	0
Premium Bond Anticipation Note Bond Anticipation Note, 3.83% interest rate, maturing May 2008	10,631 0	0 1,484,483	(10,631) 0	0 1,484,483	0 1,484,483
Capital lease payable	33,301	2,950,000	(147,109)	2,836,192	236,727
Compensated absences payable	560,919	35,548	(23,011)	573,456	36,329
Total long-term obligations	\$ 2,780,650	\$ 4,470,031	\$ (2,356,550)	\$ 4,894,131	\$ 1,757,539

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

Compensated absences will be paid out of the fund from which the employees' salaries are paid, which is primarily the general fund. The bond anticipation notes will be paid out of the debt service fund. Capital leases will be paid out of the permanent improvement fund.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2007 are as follows:

<u>Years ending June 30,</u>	<u>Bond Anticipation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 1,484,483</u>	<u>\$ 56,410</u>

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 10: Capitalized Leases – Lessee Disclosure

In fiscal year 2007, the School District entered into a lease agreement with the All Points Public Funding LLC for the construction of a new stadium. At the time the School District entered into this lease, the stadium had not yet been constructed. As part of the agreement, All Points Public Funding LLC, as lessor, deposited \$2,950,000 in the project fund for the construction of the stadium. Amounts are paid to contractors at the discretion of the School District as the project progresses. At year end, capital assets being constructed under this lease have been capitalized as construction in progress in the amount of \$2,054,522. The interest rate is at 5.29 percent.

The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

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

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007:

Year ending June 30,	2008	\$	383,672
	2009		383,672
	2010		383,672
	2011		383,672
	2012		383,672
	2013-2017		1,726,524
			3,644,884
Less: amount representing interest			808,692
Present value of minimum lease payments		\$	2,836,192

Note 11: Defined Benefit Pension Plans

A. State Teachers Retirement System

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 11: Defined Benefit Pension Plans (Continued)

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$677,364, \$673,344 and \$613,224, respectively; 84 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$107,454, representing the unpaid contribution for fiscal year 2007, is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 11: Defined Benefit Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$137,568, \$199,524 and \$223,800, respectively; 59 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$56,244, representing the unpaid contribution for fiscal year 2007, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 12: Postemployment Benefits

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$48,383 during fiscal 2007.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the latest information available) the balance in the fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 12: Postemployment Benefits (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease from 3.42 percent for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employee's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$57,542 during the 2007 fiscal year.

Net health care costs for the year ending June 30, 2006 (the latest information available), were \$158,751,207. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (the latest information available), the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs of \$133,775,656. SERS has 59,492 participants currently receiving health care benefits.

Note 13: Other Employee Benefits

A. Compensated Absences

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

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

B. Life Insurance

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 14: Statutory Reserves

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

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

	Textbook Reserve	Capital Acquisition
Set-Aside Balance as of June 30, 2006	\$ 109,058	\$ 0
Current Year Set-Aside Requirement	208,424	208,424
Carryover From Prior Years	0	(1,354,000)
Current Year Offsets	0	(585,481)
Current Year Qualifying Disbursements	(213,490)	0
Total	\$ 103,992	\$ (1,731,057)
 Balance Carried Forward to Future Fiscal Years	 \$ 103,992	 \$ (1,354,000)
 Cash Balance Carried Forward to Fiscal Year 2008	 \$ 103,992	 \$ 0

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

In addition to the above statutory reserves, the District also received monies restricted by state statute for school bus purchases.

A schedule of the restricted net assets at June 30, 2007 follows:

Amount restricted for textbooks	\$ 103,992
Amount restricted for school bus purchases	\$ 14,584

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 15: Risk Management

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2007, the School District has property and liability insurance coverage as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and contents – replacement coverage	\$ 1,000	\$ 47,006,008
Boiler and machinery – blanket limit	500	5,000,000
Crime insurance	500	25,000
Automobile liability	0	2,000,000
Uninsured motorists	0	1,000,000
General liability	0	1,000,000
Education liability:		
Per occurrence	0	2,000,000
Total per year	0	4,000,000
School Board Errors and Omissions		1,000,000

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

B. Fidelity Bond

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

C. Workers' Compensation

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

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 15: Risk Management (Continued)

D. Employee Health Insurance

Medical, surgical and dental insurance is offered to all employees through a self insurance internal service fund. The School District is a member of the Ohio Mid- Eastern Regional Education Service Agency Health Benefit Plan, a public entity risk management, insurance, and claims servicing pool, consisting of school districts within the region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$196,596 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in fund's claims liability for the fiscal years 2007 and 2006 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2007	<u>\$ 110,032</u>	<u>\$ 1,034,433</u>	<u>\$ 947,869</u>	<u>\$ 196,596</u>
2006	<u>\$ 81,426</u>	<u>\$ 1,390,960</u>	<u>\$ 1,362,354</u>	<u>\$ 110,032</u>

Note 16: Interfund Balances

As of June 30, 2007, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

	<u>Receivable</u>	<u>Payable</u>
Fund:		
General	\$ 58,701	\$ 0
Other Governmental:		
Title VI-B	0	12,000
Title I	0	45,000
Title V	0	1,701
Totals	<u>\$ 58,701</u>	<u>\$ 58,701</u>

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 16: Interfund Balances (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the Statement of Net Assets.

Note 17: Contractual Commitments

As of June 30, 2007, the School District has commitments with the following companies for a new sports stadium.

	Contract Amount	Amount Paid as of June 30, 2007	Amount Remaining on Contract
Vasco Asphalt Co.	\$ 2,715,948	\$ 1,161,160	\$ 1,554,788
Joe Dickey Electric	156,339	90,230	66,109
A. A. Samuels Sheet Metal Co.	43,322	31,120	12,202
Charniga Plumbing & Heating Co.	145,010	71,654	73,356
Total	\$ 3,060,619	\$ 1,354,164	\$ 1,706,455

Note 18: Related Organizations

The East Palestine Public Library (the “Library”) is a related organization to the School District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library’s operation, nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the School District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the School District during the fiscal year 2007.

Note 19: Noncompliance

- A. The District had 43% of expenditures not certified in a timely manner in noncompliance with Ohio Revised Code Section 5705.41(D).
- B. The District had expenditures over appropriations at December 31, 2006 in noncompliance with Ohio Revised Code Sections 5705.41(B) and 5705.40.

East Palestine City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year June 30, 2007

Note 20: Jointly Governed Organizations

A. Area Cooperative Computerized Education Service System (ACCESS)

ACCESS is a jointly governed organization comprised of 26 public school districts, 2 educational service centers, 20 non-public schools, and 2 special education regional resource centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The seven member board of governors consists of the two superintendents and one treasurer from each county (Columbiana and Mahoning). The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for ACCESS. The assembly exercises total control over operating of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing to: Mahoning County Educational Service Center, Treasurer's Office, 2801 Market Street, Room 202, Youngstown, Ohio 44507-1693. The continued existence of ACCESS is not dependent upon the School District's continued participation and no measurable equity interest exists. The School District paid \$24,961 for services provided during fiscal year 2007.

B. Columbiana County Career Center

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

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

Note 21: Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

SUPPLEMENTARY DATA

EAST PALESTINE CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(B) Food Donation	10.550	N/A	\$ -	\$ 28,790	\$ -	\$ 28,790
Nutrition Cluster:						
(A), (C) School Breakfast Program	10.553	043927-05PU-2006	5,482		5,482	
(A), (C) School Breakfast Program	10.553	043927-05PU-2007	30,728		30,728	
(A), (C) National School Lunch	10.555	043927-LLP4-2006	26,985		26,985	
(A), (C) National School Lunch	10.555	043927-LLP4-2007	150,963		150,963	
Total Nutrition Cluster			<u>214,158</u>		<u>214,158</u>	
Total U.S. Department of Agriculture			<u>214,158</u>	<u>28,790</u>	<u>214,158</u>	<u>28,790</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	043927-C1S1-2006	39,637		42,158	
Title I - Grants to Local Educational Agencies	84.010	043927-C1S1-2007	265,345		308,702	
(G) Title I - Grants to Local Educational Agencies	84.010	043927-C1SN-2006	(80)		108	
Title I - Grants to Local Educational Agencies	84.010	043927-C1SN-2007	3,106		3,101	
Total Title I			<u>308,008</u>		<u>354,069</u>	
Special Education Cluster						
(E) Special Education: Grants to States	84.027	043927-6BSF-2006	26,835		8,008	
(E) Special Education: Grants to States	84.027	043927-6BSF-2007	303,783		315,749	
Total Special Education: Grants to States			<u>330,618</u>		<u>323,757</u>	
(E) Special Education: Preschool Grants	84.173	043927-PGS1-2006	-		6,288	
(E) Special Education: Preschool Grants	84.173	043927-PGS1-2007	10,677		10,677	
Total Special Education: Preschool Grants			<u>10,677</u>		<u>16,965</u>	
Total Special Education Cluster			<u>341,295</u>		<u>340,722</u>	
(F) Safe and Drug-Free Schools	84.186	043927-DRS1-2006	(2,877)		-	
Safe and Drug-Free Schools	84.186	043927-DRS1-2007	7,953		5,076	
Total Safe and Drug-Free Schools			<u>5,076</u>		<u>5,076</u>	
State Grants for Innovative Programs	84.298	043927-C2S1-2007	189		1,890	
Technology Literacy Challenge Fund Grants	84.318	043927-TJS1-2004	-		180	
Technology Literacy Challenge Fund Grants	84.318	043927-TJS1-2005	-		138	
Technology Literacy Challenge Fund Grants	84.318	043927-TJS1-2006	-		780	
Technology Literacy Challenge Fund Grants	84.318	043927-TJS1-2007	3,441		3,166	
Total Technology Literacy Challenge Fund Grants			<u>3,441</u>		<u>4,264</u>	
Improving Teacher Quality State Grants	84.367	043927-TRS1-2006	36,675		-	
Improving Teacher Quality State Grants	84.367	043927-TRS1-2007	60,185		90,991	
Total Improving Teacher Quality State Grants			<u>96,860</u>		<u>90,991</u>	
Total U.S. Department of Education			<u>754,869</u>		<u>797,012</u>	
Total Federal Financial Assistance			<u>\$ 969,027</u>	<u>\$ 28,790</u>	<u>\$ 1,011,170</u>	<u>\$ 28,790</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) This schedule was prepared on the cash basis of accounting.
- (E) Included as part of "Special Education Cluster" in determining major programs.
- (F) The amount of \$2,877 was moved to the FY2007 grant based on Ohio Department of Education Administrative action.
- (G) The amount of \$80 was moved to the FY2007 grant based on Ohio Department of Education Administrative action.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise East Palestine City School District's basic financial statements and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the East Palestine City School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Palestine City School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the East Palestine City School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

Board of Education
East Palestine City School District

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the East Palestine City School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the East Palestine City School District's financial statements that is more than inconsequential will not be prevented or detected by the East Palestine City School District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as 2007-EPCSD-004 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

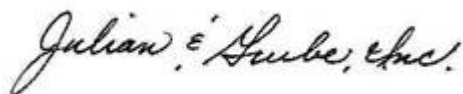
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Palestine City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedules of findings and responses as items 2007-EPCSD-001, 2007-EPCSD-002, and 2007-EPCSD-003.

We noted certain other matters that we reported to the management of the East Palestine City School District in a separate letter dated December 10, 2007.

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

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



Julian & Grube, Inc.
December 10, 2007



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

Compliance

We have audited the compliance of the East Palestine City School District, Columbiana County, Ohio, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. The East Palestine City School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the East Palestine City School District's management. Our responsibility is to express an opinion on the East Palestine City School District's compliance based on our audit.

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

In our opinion, the East Palestine City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Board of Education
East Palestine City School District

Internal Control Over Compliance

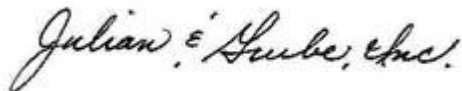
The management of the East Palestine City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the East Palestine City School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the East Palestine City School District's internal control over compliance.

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

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

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

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



Julian & Grube, Inc.
December 10, 2007

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

**SCHEDULE OF FINDINGS & RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

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

**SCHEDULE OF FINDINGS & RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-EPCSD-001

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

It was noted during the audit that 43% of the expenditures tested were not certified in a timely manner.

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

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

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

Finding Number	2007-EPCSD-002
----------------	----------------

Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by resolution and comply with the same provisions of the law as used in making the original appropriations.

By not timely and properly modifying the District’s appropriations, the District is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring its budgetary process on a regular basis and approving amendments as necessary. We recommend that District adopt accounting policies for amending appropriations, consider reviewing estimated resources and appropriations and expenditures versus appropriations on a monthly basis, and certify amendments to the District Board as necessary. We recommend the District utilize its accounting software or a spreadsheet to help monitor the budget.

Client Response: The Treasurer will attempt to monitor expenditures versus appropriations throughout the year and amend the budget as necessary.

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

**SCHEDULE OF FINDINGS & RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-EPCSD-003

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

The District had expenditures exceeding appropriations at the legal level of control during the year. This was corrected by year end.

It was noted during the audit that the District did not timely modify its appropriations throughout the year. The following funds had expenditures exceeding appropriations at 12/31/06.

<u>Major Fund</u>	<u>Excess</u>
Stadium Project (Fund 004)	\$105,932
 <u>NonMajor Funds</u>	
Education Foundation (Fund 029)	1,751
Preschool Grant (Fund 587)	777

With expenditures exceeding appropriations, the District is unlawfully expending monies that have not been appropriated. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget as needed. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The District will monitor the budget on a continual basis and make modifications as necessary to ensure expenditures do not exceed appropriations.

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

**SCHEDULE OF FINDINGS & RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

**2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE
REPORTED IN ACCORDANCE WITH GAGAS - (Continued)**

Finding Number	2007-EPCSD-004
----------------	----------------

Significant Deficiency/Material Weakness - Accounts Receivable and Deferred Revenue

During the course of our audit, we identified material misstatements in the financial statements for the year under audit that were not initially identified by the District's internal control. Audit adjustments were necessary to correct errors on the District's financial statements. A description of the material adjustments follows:

Classification as Revenue vs. Deferred Revenue - Audit adjustments were necessary to properly record deferred revenue in relation to intergovernmental receivables. Deferred revenue was understated and intergovernmental revenue was overstated as follows.

<u>Fund</u>	<u>Amount</u>
Ohio Core Grant (Fund 499)	\$7,321
Title I (Fund 572)	65,522
Title VIB(Fund 516)	6,347
Title V (Fund 573)	1,701
Title II (Fund 590)	23,908
Total	<u>\$104,799</u>

Client Response: Management concurs with the finding and will attempt to record transactions properly in accordance with accounting principles generally accepted in the United States of America.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-EPCSD-001	Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Finding Repeated as 2007-EPCSD-001



Mary Taylor, CPA
Auditor of State

EAST PALESTINE CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**