

**EAST PALESTINE CITY
SCHOOL DISTRICT**



**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2001**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Education
East Palestine City School District

We have reviewed the Independent Auditor's Report of the East Palestine City School District, Columbiana County, prepared by Rea & Associates, Inc. for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

December 29, 2001

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 2001

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 20, 2001

To the Board of Education
East Palestine City School District
East Palestine, OH 44413

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of East Palestine City School District (the "District") as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of East Palestine City School District as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 20, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

EAST PALESTINE CITY SCHOOL DISTRICT

Combined Balance Sheet
All Fund Types and Account Groups
 June 30, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 401,470	\$ 398,132	\$ 413,347	\$ 6,975,273
Restricted Cash and Cash Equivalents	80,549	0	0	0
Cash and Cash Equivalents				
In Segregated Accounts	0	162,285	0	0
With Fiscal Agent	0	0	0	0
Investments	0	0	0	0
Receivables:				
Taxes	2,020,821	0	774,644	456,842
Accounts	2,534	50	0	0
Intergovernmental Receivable	0	0	0	9,409,307
Advances to Other Funds	33,667	0	0	0
Inventory	0	0	0	0
Fixed Assets (Net)	0	0	0	0
<u>Other Debits</u>				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	\$ 2,539,041	\$ 560,467	\$ 1,187,991	\$ 16,841,422
<u>Liabilities</u>				
Accounts Payable	\$ 113,896	\$ 25,598	\$ 0	\$ 24,512
Contracts Payable	0	0	0	63,750
Accrued Wages and Benefits	744,972	72,627	0	0
Compensated Absences Payable	31,173	0	0	0
Intergovernmental Payable	166,676	3,798	0	0
Deferred Revenue	1,946,286	0	746,073	9,849,299
Due to Students	0	0	0	0
Accrued Interest Payable	0	0	0	169,339
Advances from Other Funds	0	0	33,667	0
Notes Payable	0	0	0	5,050,000
Claims Payable	0	0	0	0
Energy Conservation Notes Payable	0	0	0	0
Final Judgement Bonds Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	3,003,003	102,023	779,740	15,156,900
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings: Unreserved	0	0	0	0
Fund Balance:				
Reserved for Endowment	0	0	0	0
Reserved for Encumbrances	56,526	5,783	0	7,350
Reserved for Advances	33,667	0	0	0
Reserved for Textbooks	80,549	0	0	0
Reserved for Taxes Unavailable for Appropriation	74,535	0	28,571	16,850
Unreserved: Undesignated	(709,239)	452,661	379,680	1,660,322
Total Fund Equity and Other Credits	(463,962)	458,444	408,251	1,684,522
Total Liabilities, Fund Equity and Other Credits	\$ 2,539,041	\$ 560,467	\$ 1,187,991	\$ 16,841,422

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 5,134	\$ 102,805	\$ 0	\$ 0	\$ 0	\$ 8,296,161
0	0	0	0	0	80,549
45,042	0	68,456	0	0	275,783
0	395,814	0	0	0	395,814
0	0	56,380	0	0	56,380
0	0	0	0	0	3,252,307
0	0	0	0	0	2,584
0	0	0	0	0	9,409,307
0	0	0	0	0	33,667
4,644	0	0	0	0	4,644
34,724	0	0	14,350,514	0	14,385,238
0	0	0	0	408,251	408,251
0	0	0	0	260,000	260,000
0	0	0	0	627,464	627,464
<u>\$ 89,544</u>	<u>\$ 498,619</u>	<u>\$ 124,836</u>	<u>\$ 14,350,514</u>	<u>\$ 1,295,715</u>	<u>\$ 37,488,149</u>
\$ 67,009	\$ 0	\$ 2,817	\$ 0	\$ 0	\$ 233,832
0	0	0	0	0	63,750
0	0	0	0	0	817,599
0	0	0	0	466,781	497,954
11	0	0	0	63,130	233,615
3,629	0	0	0	0	12,545,287
0	0	29,012	0	0	29,012
0	0	0	0	0	169,339
0	0	0	0	0	33,667
0	0	0	0	0	5,050,000
0	188,285	0	0	0	188,285
0	0	0	0	287,424	287,424
0	0	0	0	218,380	218,380
0	0	0	0	260,000	260,000
<u>70,649</u>	<u>188,285</u>	<u>31,829</u>	<u>0</u>	<u>1,295,715</u>	<u>20,628,144</u>
0	0	0	14,350,514	0	14,350,514
4,071	0	0	0	0	4,071
14,824	310,334	0	0	0	325,158
0	0	73,630	0	0	73,630
0	0	0	0	0	69,659
0	0	0	0	0	33,667
0	0	0	0	0	80,549
0	0	0	0	0	119,956
0	0	19,377	0	0	1,802,801
<u>18,895</u>	<u>310,334</u>	<u>93,007</u>	<u>14,350,514</u>	<u>0</u>	<u>16,860,005</u>
<u>\$ 89,544</u>	<u>\$ 498,619</u>	<u>\$ 124,836</u>	<u>\$ 14,350,514</u>	<u>\$ 1,295,715</u>	<u>\$ 37,488,149</u>

EAST PALESTINE CITY SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*

All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2001

	Governmental Fund Type			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 1,686,596	\$ 42,433	\$ 45,517	\$ 1,061,795
Intergovernmental	6,043,520	667,213	82,109	3,650,007
Investment Income	0	8,071	0	317,661
Tuition and Fees	26,542	0	0	0
Extracurricular Activities	0	211,907	0	0
Miscellaneous	11,818	5,684	0	35,690
Total Revenues	7,768,476	935,308	127,626	5,065,153
Expenditures				
Instruction:				
Regular	3,876,216	54,568	0	127,480
Special	368,710	356,555	0	627
Vocational	123,899	0	0	0
Support Services:				
Pupils	506,911	110,922	0	0
Instructional Staff	418,404	16,040	0	36,865
Board of Education	34,045	0	0	0
Administration	598,342	50,728	0	3,600
Fiscal	191,966	5,562	19,745	7,180
Business	460,034	1,593	0	0
Operation and Maintenance of Plant	786,523	27,833	0	5,169
Pupil Transportation	346,997	13,285	0	161,775
Central	113	0	0	0
Operation of Non-Instructional Services	500	0	0	0
Extracurricular Activities	120,180	219,665	0	0
Capital Outlay	4,596	3,069	0	477,494
Debt Service:				
Principal Retirement	0	0	190,194	0
Interest and Fiscal Charges	0	0	61,093	351,557
Total Expenditures	7,837,436	859,820	271,032	1,171,747
Excess of Revenues Over (Under) Expenditures	(68,960)	75,488	(143,406)	3,893,406
Other Financing Sources (Uses)				
Transfers In	0	23,000	0	576,703
Transfers Out	(597,638)	0	0	(2,065)
Total Other Financing Sources (Uses)	(597,638)	23,000	0	574,638
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(666,598)	98,488	(143,406)	4,468,044
Fund Balances (Deficit) at Beginning of Year	202,636	359,956	551,657	(2,783,522)
Fund Balances (Deficit) at End of Year	\$ (463,962)	\$ 458,444	\$ 408,251	\$ 1,684,522

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Type	Totals (Memorandum Only)
\$ 0	\$ 2,836,341
0	10,442,849
518	326,250
0	26,542
0	211,907
300	53,492
<u>818</u>	<u>13,897,381</u>
0	4,058,264
0	725,892
0	123,899
0	617,833
0	471,309
0	34,045
0	652,670
0	224,453
0	461,627
0	819,525
0	522,057
0	113
956	1,456
0	339,845
0	485,159
0	190,194
0	412,650
<u>956</u>	<u>10,140,991</u>
(138)	3,756,390
0	599,703
0	(599,703)
<u>0</u>	<u>0</u>
(138)	3,756,390
<u>16,238</u>	<u>(1,653,035)</u>
<u>\$ 16,100</u>	<u>\$ 2,103,355</u>

EAST PALESTINE CITY SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual - (Non-GAAP Budgetary Basis)*
All Governmental Fund Types and Expendable Trust Funds
For the Year Ended June 30, 2001

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,785,864	\$ 1,649,988	\$ (135,876)
Intergovernmental	5,878,078	6,043,520	165,442
Investment Income	0	0	0
Tuition and Fees	12,500	26,524	14,024
Extracurricular Activities	0	0	0
Miscellaneous	2,500	9,314	6,814
Total Revenues	7,678,942	7,729,346	50,404
Expenditures			
Instruction			
Regular	3,898,849	3,804,023	94,826
Special	346,887	360,157	(13,270)
Vocational	116,868	123,544	(6,676)
Support Services			
Pupils	519,839	499,441	20,398
Instructional Staff	438,147	420,947	17,200
Board of Education	35,422	30,116	5,306
Administration	800,742	603,181	197,561
Fiscal	184,586	192,122	(7,536)
Business	385,135	452,629	(67,494)
Operation and Maintenance of Plant	848,967	847,280	1,687
Pupil Transportation	375,840	334,510	41,330
Central	2,000	113	1,887
Operation of Non-Instructional Services	500	500	0
Extracurricular Activities	131,000	146,917	(15,917)
Capital Outlay	4,717	4,596	121
Debt Service			
Principal Retirement	0	4,143	(4,143)
Interest and Fiscal Charges	0	1,615	(1,615)
Total Expenditures	8,089,499	7,825,834	263,665
Excess of Revenues Over (Under) Expenditures	(410,557)	(96,488)	314,069
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	0	0	0
Other Financing Sources	0	0	0
Other Financing Uses	(1,500)	(1,500)	0
Advances Out	(20,000)	0	20,000
Transfers In	224,746	0	(224,746)
Transfers Out	(774,638)	(597,638)	177,000
Total Other Financing Sources (Uses)	(571,392)	(599,138)	(27,746)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(981,949)	(695,626)	286,323
Fund Balances at Beginning of Year	832,124	832,124	0
Prior Year Encumbrances Appropriated	197,384	197,384	0
Fund Balances at End of Year	\$ 47,559	\$ 333,882	\$ 286,323

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 45,201	\$ 42,433	\$ (2,768)	\$ 191,217	\$ 31,540	\$ (159,677)
732,977	731,673	(1,304)	67,500	82,109	14,609
5,700	8,071	2,371	0	0	0
0	0	0	0	0	0
175,466	212,078	36,612	0	0	0
5,400	7,084	1,684	0	0	0
<u>964,744</u>	<u>1,001,339</u>	<u>36,595</u>	<u>258,717</u>	<u>113,649</u>	<u>(145,068)</u>
53,260	52,265	995	0	0	0
357,415	350,921	6,494	0	0	0
0	0	0	0	0	0
118,273	109,811	8,462	0	0	0
24,082	19,370	4,712	0	0	0
0	0	0	0	0	0
51,487	49,119	2,368	0	0	0
4,513	5,537	(1,024)	26,307	19,745	6,562
4,000	1,593	2,407	0	0	0
67,800	29,867	37,933	0	0	0
15,000	13,285	1,715	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
242,859	222,982	19,877	0	0	0
0	3,100	(3,100)	0	0	0
0	0	0	200,031	190,194	9,837
0	0	0	128,513	61,093	67,420
<u>938,689</u>	<u>857,850</u>	<u>80,839</u>	<u>354,851</u>	<u>271,032</u>	<u>83,819</u>
<u>26,055</u>	<u>143,489</u>	<u>117,434</u>	<u>(96,134)</u>	<u>(157,383)</u>	<u>(61,249)</u>
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(469)	0	469	0	0	0
23,000	23,000	0	0	0	0
0	0	0	0	0	0
<u>22,531</u>	<u>23,000</u>	<u>469</u>	<u>0</u>	<u>0</u>	<u>0</u>
48,586	166,489	117,903	(96,134)	(157,383)	(61,249)
348,346	348,346	0	570,731	570,731	0
14,393	14,393	0	0	0	0
<u>\$ 411,325</u>	<u>\$ 529,228</u>	<u>\$ 117,903</u>	<u>\$ 474,597</u>	<u>\$ 413,348</u>	<u>\$ (61,249)</u>

(Continued)

EAST PALESTINE CITY SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual - Budgetary Basis*
All Governmental Fund Types and Expendable Trust Funds (Continued)
 For the Year Ended June 30, 2001

	Capital Project Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 880,648	\$ 1,053,559	\$ 172,911
Intergovernmental	3,654,663	3,650,007	(4,656)
Investment Income	254,000	318,761	64,761
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Miscellaneous	35,432	35,432	0
Total Revenues	4,824,743	5,057,759	233,016
Expenditures			
Instruction			
Regular	129,486	127,480	2,006
Special	627	627	0
Vocational	0	0	0
Support Services			
Pupils	0	0	0
Instructional Staff	42,605	34,605	8,000
Board of Education	0	0	0
Administration	5,500	3,600	1,900
Fiscal	9,000	7,180	1,820
Business	0	0	0
Operation and Maintenance of Plant	5,169	5,169	0
Pupil Transportation	161,775	161,775	0
Central	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	562,073	436,602	125,471
Debt Service			
Principal Retirement	5,554,000	5,554,000	0
Interest and Fiscal Charges	198,227	201,864	(3,637)
Total Expenditures	6,668,462	6,532,902	135,560
Excess of Revenues Over (Under) Expenditures	(1,843,719)	(1,475,143)	368,576
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	5,050,000	5,050,000	0
Other Financing Sources	258	258	0
Other Financing Uses	0	0	0
Advances Out	0	0	0
Transfers In	576,703	576,703	0
Transfers Out	(2,065)	(2,065)	0
Total Other Financing Sources (Uses)	5,624,896	5,624,896	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	3,781,177	4,149,753	368,576
Fund Balances at Beginning of Year	2,663,965	2,663,965	0
Prior Year Encumbrances Appropriated	133,945	133,945	0
Fund Balances at End of Year	\$ 6,579,087	\$ 6,947,663	\$ 368,576

The accompanying notes are an integral part of these financial statements.

Expendable Trust Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 2,902,930	\$ 2,777,520	\$ (125,410)
0	0	0	10,333,218	10,507,309	174,091
363	518	155	260,063	327,350	67,287
0	0	0	12,500	26,524	14,024
0	0	0	175,466	212,078	36,612
425	300	(125)	43,757	52,130	8,373
<u>788</u>	<u>818</u>	<u>30</u>	<u>13,727,934</u>	<u>13,902,911</u>	<u>174,977</u>
0	0	0	4,081,595	3,983,768	97,827
0	0	0	704,929	711,705	(6,776)
0	0	0	116,868	123,544	(6,676)
0	0	0	638,112	609,252	28,860
0	0	0	504,834	474,922	29,912
0	0	0	35,422	30,116	5,306
0	0	0	857,729	655,900	201,829
0	0	0	224,406	224,584	(178)
0	0	0	389,135	454,222	(65,087)
0	0	0	921,936	882,316	39,620
0	0	0	552,615	509,570	43,045
0	0	0	2,000	113	1,887
1,080	956	124	1,580	1,456	124
0	0	0	373,859	369,899	3,960
0	0	0	566,790	444,298	122,492
0	0	0	5,754,031	5,748,337	5,694
0	0	0	326,740	264,572	62,168
<u>1,080</u>	<u>956</u>	<u>124</u>	<u>16,052,581</u>	<u>15,488,574</u>	<u>564,007</u>
<u>(292)</u>	<u>(138)</u>	<u>154</u>	<u>(2,324,647)</u>	<u>(1,585,663)</u>	<u>738,984</u>
0	0	0	5,050,000	5,050,000	0
0	0	0	258	258	0
0	0	0	(1,500)	(1,500)	0
0	0	0	(20,469)	0	20,469
0	0	0	824,449	599,703	(224,746)
0	0	0	(776,703)	(599,703)	177,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>5,076,035</u>	<u>5,048,758</u>	<u>(27,277)</u>
(292)	(138)	154	2,751,388	3,463,095	711,707
16,238	16,238	0	4,431,404	4,431,404	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>345,722</u>	<u>345,722</u>	<u>0</u>
<u>\$ 15,946</u>	<u>\$ 16,100</u>	<u>\$ 154</u>	<u>\$ 7,528,514</u>	<u>\$ 8,240,221</u>	<u>\$ 711,707</u>

EAST PALESTINE CITY SCHOOL DISTRICT

*Combined Statement of Revenues,
Expenses, and Changes in Fund Equity*

All Proprietary Fund Types and Nonexpendable Trust Fund

For the Year Ended June 30, 2001

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
<u>Operating Revenues</u>				
Tuition	\$ 2,875	\$ 0	\$ 0	\$ 2,875
Sales	272,685	0	0	272,685
Charges for Services	0	864,530	0	864,530
Investment Income	0	0	3,277	3,277
<i>Total Operating Revenues</i>	275,560	864,530	3,277	1,143,367
<u>Operating Expenses</u>				
Salaries	1,000	0	0	1,000
Fringe Benefits	11	18,458	0	18,469
Purchased Services	479,286	62,431	0	541,717
Materials and Supplies	33,993	0	0	33,993
Depreciation	5,887	0	0	5,887
Claims Expenses	0	763,243	0	763,243
Other Operating Expenses	875	0	4,176	5,051
<i>Total Operating Expenses</i>	521,052	844,132	4,176	1,369,360
Operating Income (Loss)	(245,492)	20,398	(899)	(225,993)
<u>Non-Operating Revenues</u>				
Operating Grants	180,760	0	0	180,760
Donated Commodities	33,596	0	0	33,596
Investment Income	756	14,215	0	14,971
<i>Total Non-Operating Revenues</i>	215,112	14,215	0	229,327
<i>Net Income (Loss)</i>	<i>(30,380)</i>	<i>34,613</i>	<i>(899)</i>	<i>3,334</i>
Retained Earnings/Fund Balances at Beginning of Year	45,204	275,721	77,806	398,731
Retained Earnings/Fund Balances at End of Year	14,824	310,334	76,907	402,065
Contributed Capital at End of Year	4,071	0	0	4,071
Total Fund Equity at End of Year	\$ 18,895	\$ 310,334	\$ 76,907	\$ 406,136

The accompanying notes are an integral part of these financial statements.

EAST PALESTINE CITY SCHOOL DISTRICT

Combined Statement of Cash Flows

All Proprietary Fund Types and Nonexpendable Trust Fund

For the Year Ended June 30, 2001

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Totals</u> (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:				
<u>Cash Flows From Operating Activities</u>				
Cash Received from Customers	\$ 275,560	\$ 864,530	\$ 0	\$ 1,140,090
Investment Income	0	0	3,277	3,277
Cash Paid for Goods and Services	(413,440)	(62,431)	(4,176)	(480,047)
Cash Paid to Employees	(1,010)	(18,458)	0	(19,468)
Cash Paid for Claims	0	(686,882)	0	(686,882)
Net Cash Provided by (Used For) Operating Activities	(138,890)	96,759	(899)	(43,030)
<u>Cash Flows From Non-Capital Financing Activities</u>				
Grants	180,760	0	0	180,760
<u>Cash Flows From Investing Activities</u>				
Interest Income	756	14,215	0	14,971
Sale of Investments	0	0	653	653
Net Cash Provided by Investing Activities	756	14,215	653	15,624
Net Increase (Decrease) in Cash and Cash Equivalents	42,626	110,974	(246)	153,354
Cash and Cash Equivalents at Beginning of Year	7,550	387,645	27,587	422,782
Cash and Cash Equivalents at End of Year	\$ 50,176	\$ 498,619	\$ 27,341	\$ 576,136
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</u>				
Operating Income (Loss)	\$ (245,492)	\$ 20,398	\$ (899)	\$ (225,993)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:				
Depreciation	5,887	0	0	5,887
Non-cash Donated Commodities	33,596	0	0	33,596
Decrease in Inventory	976	0	0	976
Increase in Accounts Payable	67,009	0	0	67,009
Increase in Intergovernmental Payable	1	0	0	1
(Decrease) in Deferred Revenue	(867)	0	0	(867)
Increase in Claims Payable	0	76,361	0	76,361
Total Adjustments	106,602	76,361	0	182,963
Net Cash Provided by (Used For) Operating Activities	\$ (138,890)	\$ 96,759	\$ (899)	\$ (43,030)
<u>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</u>				
Trust and Agency	\$ 68,456			
Less: Expendable Trust Funds	9,286			
Less: Agency Funds	31,829			
Nonexpendable Trust Fund	\$ 27,341			

The accompanying notes are an integral part of these financial statements.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The East Palestine City School District (District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of October 1, 2000, was 1,557. The District employs 107 certificated and 43 non-certificated employees.

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

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

The District is involved with Area Cooperative Computerized Educational Service System (ACCESS), and the Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 22. The East Palestine Public Library is a related organization of the District, which is presented in Note 18 to the general purpose financial statements.

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the District are organized and operated on the basis of funds and account groups to report on its' financial position and the results of operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The District has the following fund types and account groups:

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types and the expendable trust funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. 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 the pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

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

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 GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2001, but which are levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payment to be made early in the following year. Compensated absences are reported as a fund liability when payment will require use of current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the payment of general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or nonexpendable trust funds.

Proprietary Fund Types

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the nonexpendable trust fund. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the District has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations unless they contradict/conflict with Governmental Accounting Standards Board pronouncements. Proprietary fund types include the following fund types:

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary fund types account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Funds - Expendable trust funds are accounted for in essentially the same manner as the governmental fund types.

Nonexpendable Trust Fund - The nonexpendable trust fund is accounted for in essentially the same manner as the proprietary fund types.

Agency Funds - The agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the District holds for others in an agency capacity.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the District, other than those accounted for in proprietary or nonexpendable trust funds.

General Long-term Obligations Account Group - This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary or nonexpendable trust funds.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified by the County Auditor.

All funds, other than the agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Budgetary modifications that change total appropriations may only be made by resolution of the Board of Education. Budgetary statements are not presented for proprietary and nonexpendable trust fund types.

C. Cash, Cash Equivalents, and Investments

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

During fiscal year 2001, investments were limited to Certificates of Deposit and a repurchase agreement. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earning. Interest cash receipts credited to the Building Capital Projects Fund during fiscal year 2001 amounted to \$132,171, which includes \$111,050 assigned from other District funds.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash and cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Receivables

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

E. Estimates

The preparation of the 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 could differ from those estimates.

F. Advances

Advances to and advances from governmental funds represent noncurrent portions of interfund receivables and payables. The governmental fund making the advance establishes a fund balance reserve equal to the amount of the advance.

G. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. Fixed Assets and Depreciation

Fixed assets used in governmental fund types of the District are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received, based on historical information available. Depreciation is computed using the straight-line method based on the estimated life of assets. Estimated useful lives of the various classes of depreciable assets consist of: equipment - 5 to 20 years. The capitalization threshold is \$500.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio law, a debt service fund may be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

J. Bond Premiums and Discounts

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. No bond premiums or discounts are reported this fiscal year.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

The District reports compensated absences in accordance with GASB Statement No. 16, "Accounting for Compensated Absences."

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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 vesting method. The liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to termination benefits and those the District has identified as probable of receiving payment in the future. All employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service, regardless of their age, were considered probable of receiving termination benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

The entire estimated amount of unpaid compensated absences, including sick pay and vacation pay, of proprietary type funds is reflected as a liability in the respective funds. The current portion of unpaid compensated absences for sick leave related to governmental fund type operations is reflected in the respective funds. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

M. Contributed Capital

Contributed capital reported in the enterprise funds represent resources provided from other funds, other governments, and private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contribute resources is expensed and closed to unreserved retained earnings at year end. There were no changes to contributed capital this year.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

The District records reservations for 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 appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, contributions to the nonexpendable trust fund that must be kept intact, textbook and instructional supplies, and long-term interfund advances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

O. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The District currently participates in several state and federal programs, categorized as follows:

Entitlements

General Fund:

State Foundation Program
State Property Tax Relief
School Bus Purchase Allowance

Non-Reimbursable Grants

Special Revenue Funds:

Education Management Information Systems
Eisenhower Grant
Title I
Title VI
Title VI-B
Drug-Free Schools Grant
Teacher Development Block Grant
EHA Preschool Handicapped Grant
Ohio Reads Grant

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Reimbursable Grants (Continued)

Special Revenue Funds:

School Net Professional Development
Disadvantaged Pupil Impact Act
Data Communications Subsidy
Title VI-R

Capital Projects Fund:

Classroom Facilities Grant
SchoolNet
Technology Equity
Power-Up Technologies Grant
Interactive Video Distance Learning Grant

Reimbursable Grants

General Fund:

Driver Education
Telecommunications Act Grant

Enterprise Funds:

National School Lunch Program
National School Breakfast Program
Government Donated Commodities

Grants and entitlements amounted to approximately 70% of the District's operating revenue during the 2001 fiscal year.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2001, the District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". The statement established accounting and reporting guidelines for governments' decisions about when (in the fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The implementation of GASB Statement No. 33 did not have a material effect on fund balance/retained earnings as it was previously reported as of June 30, 2000.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 4 BUDGETARY PROCESS

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit a proposed operating budget to the Board of Education. A budget of estimated revenue and expenditures is submitted to the Tuscarawas County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official Certificate of Estimated Resources which states projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any unencumbered balances from the preceding year. The Certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (NonGAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund" do not include July 1, 2000 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual Appropriation Resolution must be passed by October 1 of each year for the period July 1 to June 30. The Appropriation Resolution fixes spending authority at the fund level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among functions within a fund may be modified during the year by the District's Treasurer. A supplemental appropriation resolution was legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (NonGAAP Basis) - All Governmental Fund Types and Expendable Trust Fund" represent the final appropriation amounts including all amendments and modifications.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 4: BUDGETARY PROCESS (Continued)

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the generally accepted accounting principles (GAAP) basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balance for subsequent year expenditures.

Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the GAAP basis, the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (NonGAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and GAAP basis are that:

- 1) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- 2) Expenditures are recorded when paid in cash (budget basis) rather than when the liability is incurred (GAAP basis).
- 3) Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
- 4) Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- 5) The District repays debt from the debt service fund (budget non-GAAP basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 4: BUDGETARY PROCESS (Continued)

The following table summarizes the adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures
and Other Financing Uses – All Governmental Fund Types and Expendable Trust Fund

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Expendable Trust Fund
Budgetary Basis	\$ (695,626)	\$ 166,489	\$ (157,383)	\$ 4,149,753	\$ (138)
Encumbrances	148,137	31,190	0	27,610	0
Revenue accruals	39,130	(66,031)	13,977	(5,042,864)	0
Expenditure accruals	<u>(158,239)</u>	<u>(33,160)</u>	<u>0</u>	<u>5,333,545</u>	<u>0</u>
GAAP Basis	<u>\$ (666,598)</u>	<u>\$ 98,488</u>	<u>\$ (143,406)</u>	<u>\$ 4,468,044</u>	<u>\$ (138)</u>

NOTE 5: ACCOUNTABILITY AND COMPLIANCE

At June 30, 2001, the General Fund had a deficit fund balance of \$(463,962), which was created by the application of generally accepted accounting principles.

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits identified as not required for use within the current two 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.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

Interim monies may 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 or 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 any 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; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

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

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 District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

At year-end, the carrying amount of the District's deposits was \$3,050,649 and the bank balance was \$3,328,036. Of the bank balance:

1. \$244,794 was covered by federal depository insurance.
2. \$2,015,539 was collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
3. \$1,067,703 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Funds Held by Fiscal Agent

The District participates in the Columbiana County Insurance Consortium for employee benefits. The amount held at fiscal year end for the Employee Benefit Self-Insurance Fund was \$395,814. 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.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Investments

GASB Statement No. 3 entitled "Deposits with Financial Institutions, Investors (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the District to categorize investments to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The carrying value of deposits and investments are presented in the combined balance sheet as equity in pooled cash and cash equivalents.

	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreements	<u>\$ 5,658,224</u>	<u>\$ 5,658,224</u>

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash</u>	
	<u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 9,048,307	\$ 56,380
Certificate of Deposit with maturity of greater than three months	56,380	(56,380)
Repurchase Agreement	<u>(5,658,224)</u>	<u>5,658,224</u>
GASB Statement No. 3	<u>\$ 3,446,463</u>	<u>\$ 5,658,224</u>

NOTE 7: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar year 2001 for real and public utility property taxes represent collections of calendar year 2000 taxes. Property tax payments received during calendar year 2001 for tangible personal property (other than public utility property) is for calendar year 2001 taxes.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 7: PROPERTY TAXES (Continued)

2001 real property taxes are levied after April 1, 2001 on the assessed value as of January 1, 2001, 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. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000 on the values as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2001 taxes were collected are:

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 68,517,940	72%	\$ 70,060,470	74%
Commercial Industrial	10,928,830	11%	10,710,910	11%
Tangible Personal Property	<u>16,423,420</u>	<u>17%</u>	<u>13,958,500</u>	<u>15%</u>
Total Assessed Value	<u>\$ 95,870,190</u>	<u>100%</u>	<u>\$ 94,729,880</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation		<u>\$ 33.60</u>		<u>\$ 33.60</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 District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001 are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 7: PROPERTY TAXES (Continued)

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, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the District as an advance at June 30, 2001 was \$119,956.

NOTE 8: RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, accounts (customer services and student fees), accrued interest 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 year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Capital Projects Funds:
Classroom Facilities Grant \$ 9,409,307

NOTE 9: FIXED ASSETS AND DEPRECIATION

A. General Fixed Assets Account Group

The changes in general fixed assets during the year consisted of:

	Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2001</u>
Land and improvements	\$ 852,699	\$ 0	\$ 0	\$ 852,699
Buildings and improvements	10,505,825	0	0	10,505,825
Furniture and equipment	1,775,870	73,917	(13,679)	1,836,108
Vehicles	633,631	190,704	(47,203)	777,132
Construction in progress	<u>0</u>	<u>378,750</u>	<u>0</u>	<u>378,750</u>
	<u>\$ 13,768,025</u>	<u>\$ 643,371</u>	<u>\$ (60,882)</u>	<u>\$ 14,350,514</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 9: FIXED ASSETS AND DEPRECIATION (Continued)

B. Proprietary Fund Type Fixed Assets

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

<u>Enterprise</u>	<u>June 30, 2001</u>
Equipment	\$ 126,541
Less: Accumulated Depreciation	<u>(91,817)</u>
Net Fixed Assets	<u>\$ 34,724</u>

NOTE 10: NOTE PAYABLE

Bond anticipation notes were issued to provide funds for the acquisition and construction of facilities and equipment. These notes are general obligations of the District for which the full faith and credit of the District is pledged for repayment. The source of payment is derived from a current bonded debt tax levy.

As of June 30, 2001, the District had the following bond anticipation notes payable:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 06/30/00</u>	<u>Issued in FY01</u>	<u>Retired in FY01</u>	<u>Balance Outstanding 06/30/01</u>
Facilities	4.10%	11/11/99	11/09/00	\$ 4,200,000	\$ 0	\$ (4,200,000)	\$ 0
Facilities	4.45%	04/10/00	10/10/00	1,354,000	0	(1,354,000)	0
Facilities	4.59%	10/10/00	10/04/01	<u>0</u>	<u>5,050,000</u>	<u>0</u>	<u>5,050,000</u>
Total				<u>\$ 5,554,000</u>	<u>\$ 5,050,000</u>	<u>\$ (5,554,000)</u>	<u>\$ 5,050,000</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 11: LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during the fiscal year 2001 were as follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2001</u>
Energy Conservation Notes 4.85% interest rate, maturing April 2002	\$ 345,873	\$ 0	\$ (58,449)	\$ 287,424
Final Judgment Bonds, 4.40% interest rate, maturing June 2004	285,125	0	(66,745)	218,380
General Obligation Bonds, 10.875% interest rate, maturing December 2004	325,000	0	(65,000)	260,000
Compensated absences payable	426,124	40,657	0	466,781
Intergovernmental payable	<u>61,603</u>	<u>63,130</u>	<u>(61,603)</u>	<u>63,130</u>
	<u>\$ 1,443,725</u>	<u>\$ 103,787</u>	<u>\$ (251,797)</u>	<u>\$ 1,295,715</u>

General obligation bonds were issued to provide funds for the acquisition and construction of facilities and equipment. Energy conservation notes were issued to provide for energy improvements to various buildings. Final judgement bonds were issued to pay a portion of the final judgement rendered against the District in Case No. 99-CV-140. All are direct obligations of the District for which the full faith and credit of the District are pledged for repayment.

The District's overall legal debt margin was \$8,047,309 at June 30, 2001.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 11: LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2001 are as follows:

	General Obligation Bonds	Energy Conservation Notes	Final Judgement Bonds	Total
Year ending June 30, 2002	\$ 89,741	\$ 297,262	\$ 79,291	\$ 466,294
2003	82,672	0	79,291	161,963
2004	75,603	0	79,291	154,894
2005	<u>68,534</u>	<u>0</u>	<u>0</u>	<u>68,534</u>
	<u>\$ 316,550</u>	<u>\$ 297,262</u>	<u>\$ 237,873</u>	<u>\$ 851,685</u>

NOTE 12: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% 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% for members and 14% for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$590,592, \$554,208 and \$544,397, respectively; 82.9% has been contributed for fiscal year 2001 and 100% for fiscal years 2000 and 1999. \$104,400, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$147,618, \$146,250, and \$154,184, respectively; 38.3% has been contributed for fiscal year 2001 and 100% for fiscal years 2000 and 1999. \$76,740, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, two members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 13: POSTEMPLOYMENT BENEFITS

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$189,833 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.45% of covered payroll, an increase from 6.30% for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000 SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$101,072 during the 2001 fiscal year.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 14: 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 255 days for all employees. Upon retirement, certificated employees receive payment for 25% of 144 accrued sick leave days plus 10% of all sick leave days accrued above and beyond the first 144 days up to the maximum accumulation. Classified employees receive payment for 25% of 135 days accrued sick leave days plus 10% of all sick leave days accrued above and beyond the first 135 days up to the maximum accumulation.

B. Life Insurance

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

NOTE 15: NON-CASH TRANSACTIONS

The District receives food commodities for its food service obligations. The revenue recognized in grant income from the non-cash commodities was \$33,596.

NOTE 16: INTERFUND ACTIVITY

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 33,667	\$ 0
Debt Service Fund	<u>0</u>	<u>33,667</u>
	<u>\$ 33,667</u>	<u>\$ 33,667</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 17: STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Acquisition</u>	<u>BWC Refund</u>	<u>Totals</u>
Set-aside cash balance as of June 30, 2000	\$ 44,852	\$ 0	\$ 117,095	\$ 161,947
Current year set-aside requirement	187,792	187,792	0	375,584
Current year offsets	0	(1,739,790)	0	(1,739,790)
Current year qualifying disbursements	(152,095)	(32,257)		(184,352)
Amount transferred to Classroom Facilities Fund	<u>0</u>	<u>0</u>	<u>(117,095)</u>	<u>(117,095)</u>
 Total	 <u>\$ 80,549</u>	 <u>\$ (1,584,255)</u>	 <u>\$ 0</u>	 <u>\$ (1,503,706)</u>
 Cash balance carried forward to FY 2002	 <u>\$ 80,549</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	

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

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

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for textbooks	<u>\$ 80,549</u>
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EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 18: RELATED ORGANIZATIONS

The East Palestine Public Library (the "Library") is a related organization to the District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library's operation, nor does the Library represent a potential financial benefit or burden to the District. The District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the District during the fiscal year 2001.

NOTE 19: SEGMENT INFORMATION

The District maintains enterprise funds to account for the operation of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2001:

	<u>Food Service</u>	<u>Adult Education</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 272,685	\$ 2,875	\$ 275,560
Operating Expenses, less Depreciation	512,724	2,441	515,165
Depreciation Expense	5,887	0	5,887
Operating Income (Loss)	(245,926)	434	(245,492)
Donated Commodities	33,596	0	33,596
Nonoperating Grants	180,760	0	180,760
Investment Income	756	0	756
Net Income (Loss)	(30,814)	434	(30,380)
Net Working Capital	(20,952)	5,123	(15,829)
Total Assets	84,410	5,134	89,544
Total Equity	13,772	5,123	18,895

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 20: CONTRACTUAL COMMITMENTS

As of June 30, 2001, the District had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 6/30/01</u>
<u>Ohio School Facilities Commission Project</u>			
Ricciuti Balog & Partners - Architects	\$ 700,000	\$ 315,000	\$ 385,000
Innerscope Technical Services – Asbestos removal	<u>36,500</u>	<u>0</u>	<u>36,500</u>
Totals	<u>\$ 736,500</u>	<u>\$ 315,000</u>	<u>\$ 421,500</u>

NOTE 21: RISK MANAGEMENT

A. General Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2001, the District has property and liability insurance coverage as follows:

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

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

B. Fidelity Bond

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 21: RISK MANAGEMENT (Continued)

C. Workers' Compensation

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

D. Employee Health Insurance

Medical/surgical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of seven school districts within the county, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$188,285 reported in the internal service fund at June 30, 2001 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, 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 2001 and 2000 are as follows:

	Balance at Beginning <u>of Year</u>	<u>Claims</u>	<u>Payments</u>	Balance at End of Year
2001	\$ <u>111,924</u>	\$ <u>763,243</u>	\$ <u>686,882</u>	\$ <u>188,285</u>
2000	\$ <u>92,614</u>	\$ <u>607,801</u>	\$ <u>588,491</u>	\$ <u>111,924</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 22: JOINTLY GOVERNED ORGANIZATIONS

A. Area Cooperative Computerized Education Service System (ACCESS)

ACCESS is a jointly governed organization comprised of 26 public school districts, 2 educational service centers, 20 non-public schools, and 2 special education regional resource centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The seven member board of governors consists of the two superintendents and one treasurer from each county (Columbiana and Mahoning). The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for ACCESS. The assembly exercises total control over operating of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing to: Mahoning County Educational Service Center, Treasurer's Office, 2801 Market Street, Room 202, Youngstown, Ohio 44507-1693. The continued existence of ACCESS is not dependent upon the District's continued participation and no measurable equity interest exists. The District paid \$21,268 for services provided during fiscal year 2001.

B. Columbiana County Career Center

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

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

NOTE 23: CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2001.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 23: CONTINGENCIES (Continued)

B. Litigation

The District is party to a legal proceeding. The District's management is of the opinion that the ultimate disposition of this claim will not have a material effect, if any, on the financial statements or on the financial condition of the District.

NOTE 24: STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 20, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 20, 2001

To the Board of Education
East Palestine City School District
East Palestine, OH 44413

Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

We have audited the financial statements of East Palestine City School District (the "District") as of and for the year ended June 30, 2001, and have issued our report thereon dated November 20, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 20, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2001-001.

East Palestine City School District
Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards
November 20, 2001
Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the District in a separate letter dated November 20, 2001.

This report is intended for the information of the Board of Education, management 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.

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 20, 2001

To the Board of Education
East Palestine City School District
East Palestine, OH 44413

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of East Palestine City School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal program is identified in the "summary of auditor's results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 State, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, East Palestine City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of East Palestine City School District as of and for the year ended June 30, 2001, and have issued our report thereon dated November 20, 2001. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Board of Education, management 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.

Rea & Associates, Inc.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
Passed through Ohio Department of Education						
Title 1, Part A	84.010	C1-S1 2000	\$ 85,277		\$ 102,701	
Elementary and Secondary Education Act		C1-S1 2001	319,137		275,553	
Total Title 1			<u>404,414</u>		<u>378,254</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF 2000	0		5,852	
		6B-SF 2001	52,994		46,790	
Special Education - Preschool Grants	84.173	PG-S1 2001	8,418		8,418	
Total Special Education Cluster			<u>61,412</u>		<u>61,060</u>	
Title VI Ed Improve & Consol	84.298	C2-S1 1999	0		1,062	
		C2-S1 2000	2,684		2,458	
		C2-S1 2001	6,811		6,811	
Total Title VI			<u>9,495</u>		<u>10,331</u>	
Title VI R Class Reduction	84.340	CR-S1 2000	16,486		16,486	
		CR-S1 2001	43,750		28,580	
Total Title VI R Class Reduction			<u>60,236</u>		<u>45,066</u>	
Eisenhower Professional Development Grant	84.281	MS-S1 1999	0		482	
		MS-S1 2000	0		4,418	
		MS-S1 2001	7,045		760	
Total Eisenhower Professional Development Grant			<u>7,045</u>		<u>5,660</u>	
Safe, Drug-Free Schools & Communities Act Grant	84.186	DR-S1 2000	5,039		7,199	
		DR-S1 2001	1,964		0	
Total Safe, Drug-Free Schools			<u>7,003</u>		<u>7,199</u>	
Total U. S. Department of Education			<u>549,605</u>		<u>507,570</u>	
U. S. DEPARTMENT OF AGRICULTURE						
Passed through Ohio Department of Education:						
Nutrition Cluster:						
Food Distribution Program	10.550	FY01		\$ 33,596		\$ 33,596
School Breakfast Program	10.553	05-PU 2000	3,847		3,847	
		05-PU 2001	25,660		25,660	
Total School Breakfast Program			<u>29,507</u>		<u>29,507</u>	
National School Lunch Program	10.555	LL-P1 2000	14,717		14,717	
		LL-P1 2001	99,276		99,276	
		LL-P4 2000	3,366		3,366	
		LL-P4 2001	23,194		23,194	
Total National School Lunch Program			<u>140,553</u>		<u>140,553</u>	
Total US Department of Agriculture - Nutrition Cluster			<u>170,060</u>	<u>33,596</u>	<u>170,060</u>	<u>33,596</u>
Total Federal Financial Assistance			<u>\$ 719,665</u>	<u>\$ 33,596</u>	<u>\$ 677,630</u>	<u>\$ 33,596</u>

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2001, the District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS
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A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported For major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list):	Title 1 CFDA # 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2001

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

Reportable Control Weakness

Finding Number	2001-001
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Estimated Revenues and Appropriations

Estimated revenues and amendments to estimated revenues approved by the County and Board of Education were incorrectly posted to the District's accounting system. As a result, the budgetary amounts reported on the Statement of Expenditures and Encumbrances Compared with Expenditure Authority did not reflect accurate budget amounts, causing these statements to be misstated by immaterial amounts.

We recommend all budgetary information certified by the budget commission and approved by the Board of Education be routinely posted to the accounting records. The treasurer should continuously evaluate this process by inspecting official documents from the county budget commission and comparing it to amounts posted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE	
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EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2001

4. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000 – 001	<u>Estimated Revenue and Appropriations</u> Estimated revenues and appropriations approved by the County and Board of Education were incorrectly posted to the District's accounting system.	No	Partially Corrected; The treasurer has improved procedures for posting estimated revenues and appropriations. However, estimated revenues were incorrectly posted in two funds during fiscal year 2001.

Corrective Action Plan:

The treasurer plans to routinely post all budgetary information certified by the County and approved by the Board of Education to the District's accounting system. He also plans to compare the amounts posted to official documents from the county budget commission to ensure accuracy.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
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EAST PALESTINE CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 15, 2002**