

**East Palestine City School
District**

Audited Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

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

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, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 16, 2005

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 2004

Table of Contents

	<i>Page</i>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis.....	3-10
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12-13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	16-17
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	19
Statement of Fund Net Assets – Proprietary Fund.....	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Fiduciary Net Assets – Fiduciary Fund	23
Notes to the Basic Financial Statements	24-50
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	51

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 2004

*Table of Contents
(Continued)*

	<i>Page</i>
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.....	52-53
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	55
Schedule of Findings & Questioned Costs.....	56-57

The logo for Rea & Associates, Inc. features a teal-colored graphic on the left consisting of a square with a rounded top-right corner. To the right of this graphic, the company name "Rea & Associates, Inc." is written in a large, black, serif font. Below the company name, the text "ACCOUNTANTS AND BUSINESS CONSULTANTS" is written in a smaller, black, all-caps, serif font. A thin horizontal line is positioned between the company name and the tagline.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 25, 2005

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the East Palestine City School District (the "District"), Columbiana County, Ohio as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the East Palestine City School District, Columbiana County, Ohio as of June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund 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 January 25, 2005 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 the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

East Palestine City School District
Independent Accountants' Report
January 25, 2005
Page 2

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The discussion and analysis of the East Palestine City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$9 million in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2 million or 18% of total revenues of \$11 million.
- Total program expenses were \$12.6 million.
- Net assets of governmental activities decreased \$1,569,326, which represents a 7% decrease from 2003.
- Outstanding note and bonded debt decreased from \$4.8 million to \$4.1 through the payment of note and bond principal.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Reporting the School District as a Whole (Continued)

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

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 9,906,760	\$ 18,340,826
Capital Assets	21,500,985	14,511,243
Total Assets	31,407,745	32,852,069
Liabilities		
Long-Term Liabilities	4,816,992	5,423,349
Other Liabilities	5,453,623	4,732,263
Total Liabilities	10,270,615	10,155,612
Net Assets		
Invested in Capital Assets Net of Debt	17,265,517	9,666,015
Restricted	4,265,343	13,155,900
Unrestricted (Deficit)	(393,730)	(115,458)
Total Net Assets	\$ 21,137,130	\$ 22,706,457

Total governmental assets decreased by \$1.4 million. An increase of approximately \$7 million in total capital assets reflects additional purchases exceeding depreciation. Total governmental liabilities decreased by \$960,246. This decrease was primarily the result of debt payments.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The School District as a Whole (Continued)

Table 2 shows the changes in net assets for fiscal year 2004. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Change in Net Assets

	Governmental Activities	Governmental Activities
	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 819,031	\$ 639,915
Operating Grants	1,230,947	725,547
<i>General Revenue:</i>		
Property Taxes	3,158,530	2,966,580
Grants and Entitlements	5,734,834	6,678,200
Other	145,089	144,755
<i>Total Revenues</i>	11,088,431	11,154,997
Program Expenses		
Instruction	5,829,547	5,369,028
Support Services	5,811,642	4,404,542
Operation of Non-Instructional	516,700	486,500
Extracurricular Activities	390,652	389,245
Interest and Fiscal Charges	109,216	120,747
<i>Total Expenses</i>	12,657,757	10,770,062
Increase (Decrease) in Net Assets	\$ (1,569,326)	\$ 384,935

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$11.1 million and expenditures of \$12.6 million.

(Table 3)
Governmental Activities
Cost of Services

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 5,829,547	\$ 5,000,731	\$ 5,369,029	\$ 4,873,721
Support Services:				
Pupil and Instructional Staff	1,175,488	1,004,410	1,242,464	1,086,622
Board of Education, Administration, Fiscal and Business	1,685,398	1,471,024	1,761,604	1,704,765
Operation and Maintenance of Plant	2,409,091	2,293,520	962,003	924,001
Pupil Transportation	541,665	505,863	435,649	425,647
Central	0	0	2,822	2,822
Operation of Non-Instructional	516,700	13,341	486,500	73,527
Extracurricular Activities	390,652	209,674	389,245	212,421
Capital Outlay	0	0	0	(19,672)
Interest and Fiscal Charges	109,216	109,216	120,747	120,747
Total Expenses	\$ 12,657,757	\$ 10,607,779	\$ 10,770,063	\$ 9,404,601

Instruction and student support services comprise 91% of governmental program expenses. Interest/fiscal charges were 1%. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of facilities accounts for 9% of governmental program expenses.

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District did modify its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$9,166,396, over the original budget estimates of \$9,162,225. Of this approximate \$4,000 increase, most was attributable to increased intergovernmental revenue.

Final appropriations of \$9.6 million were approximately \$100,000 higher than the \$9.5 million in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$21.5 million invested in land, land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Land	\$ 566,385	\$ 475,814
Land Improvements	1,749	6,691
Buildings and Building Improvements	13,122,698	13,470,581
Furniture and Equipment	211,361	234,074
Vehicles	319,425	324,083
Construction in Progress	7,279,367	0
Totals	\$ 21,500,985	\$ 14,511,243

The \$8.3 million increase in capital assets was attributable to additional purchases exceeding depreciation expense.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$203,435 for each set aside. The School District had qualifying disbursements or offsets exceeding these requirements for capital improvements. The School District has budgeted to meet these requirements.

Debt

At June 30, 2004, the School District had \$4,105,972 in bonds outstanding with \$4,008,566 due within one year. During fiscal year 2004, \$199,256 of bonds were retired. The School District reissued \$4,105,972 of bond anticipation notes during fiscal year 2004. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2004	Governmental Activities 2003
Final Judgement Bonds	\$ 0	\$ 81,952
General Obligation Bonds	65,000	130,000
Energy Conservation Bonds	143,972	196,276
Bond Anticipation Notes	3,897,000	4,437,000
Totals	\$ 4,105,972	\$ 4,845,228

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

Current Issues

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

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Current Issues (Continued)

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26% of revenues for governmental activities for the East Palestine City School District in fiscal year 2004.

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

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

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

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

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

Contacting the School District's Financial Management

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

East Palestine City School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,949,591
Cash and Cash Equivalents:	
Restricted Cash	136,041
In Segregated Accounts	183,925
With Fiscal Agents	609,036
Investments	289,969
Receivables:	
Taxes	3,616,941
Accounts	87,597
Accrued Interest	1,302
Intergovernmental	29,888
Inventory Held For Resale	2,470
Nondepreciable Capital Assets	7,845,752
Depreciable Capital Assets (Net)	<u>13,655,233</u>
<i>Total Assets</i>	<u>31,407,745</u>
Liabilities	
Accounts Payable	48,064
Contracts Payable	880,581
Accrued Wages and Benefits	910,168
Intergovernmental Payable	289,222
Deferred Revenue	3,131,678
Accrued Interest Payable	71,229
Claims Payable	122,681
Long Term Liabilities:	
Due Within One Year	4,089,305
Due Within More Than One Year	<u>727,687</u>
<i>Total Liabilities</i>	<u>10,270,615</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	17,265,517
Restricted for:	
Capital Projects	2,951,364
Debt Service	776,640
Other Purposes	537,339
Unrestricted	<u>(393,730)</u>
<i>Total Net Assets</i>	<u>\$ 21,137,130</u>

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

East Palestine City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Total
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 4,834,373	\$ 188,162	\$ 119,909	\$ (4,526,302)
Special	916,074	22,967	493,568	(399,539)
Vocational	77,680	3,310	0	(74,370)
Adult continuing	1,420	900	0	(520)
Support services:				
Pupils	733,220	29,407	69,968	(633,845)
Instructional staff	442,268	16,315	55,388	(370,565)
Board of education	77,515	3,310	0	(74,205)
Administration	918,567	34,785	53,298	(830,484)
Fiscal	252,168	10,236	94,159	(147,773)
Business	437,148	18,586	0	(418,562)
Operation and maintenance of plant	2,409,091	41,030	74,541	(2,293,520)
Pupil transportation	541,665	32,291	3,511	(505,863)
Operation of non-instructional services	516,700	236,754	266,605	(13,341)
Extracurricular activities	390,652	180,978	0	(209,674)
Debt service:				
Interest and fiscal charges	109,216	0	0	(109,216)
Totals	\$ 12,657,757	\$ 819,031	\$ 1,230,947	(10,607,779)

General Revenues

Property Taxes Levied for:

General Purposes	1,991,080
Debt Service	731,463
Capital Outlay	435,987
Grants and Entitlements not Restricted to Specific Programs	5,734,834
Investment Earnings	50,753
Miscellaneous	94,336
Total General Revenues	9,038,453
Change in Net Assets	(1,569,326)
Net Assets Beginning of Year	22,706,456
Net Assets End of Year	\$ 21,137,130

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

East Palestine City School District

Balance Sheet

Governmental Funds

June 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement Capital Projects</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 366,573	\$ 732,254	\$ 1,345,412
Cash and Cash Equivalents:			
Restricted Cash	136,041	0	0
In Segregated Accounts	0	0	0
With Fiscal Agents	62,827	0	0
Investments	0	0	0
Receivables:			
Taxes	2,376,002	771,785	421,909
Accounts	54,819	0	0
Accrued Interest	0	0	0
Intergovernmental	0	0	0
Inventory Held For Resale	0	0	0
Total Assets	<u><u>\$ 2,996,262</u></u>	<u><u>\$ 1,504,039</u></u>	<u><u>\$ 1,767,321</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 43,850	\$ 0	\$ 0
Contracts Payable	0	0	0
Accrued Wages and Benefits	852,648	0	0
Accrued Interest	0	59,160	0
Intergovernmental Payable	149,218	0	0
Deferred Revenue	2,292,183	744,558	407,025
Total Liabilities	<u><u>3,337,899</u></u>	<u><u>803,718</u></u>	<u><u>407,025</u></u>
Fund Balances			
Fund Balance:			
Reserved for Encumbrances	46,797	0	21,951
Reserved for Inventory	0	0	0
Reserved for Tax Revenue Unavailable for Appropriation	83,819	27,227	14,884
Reserved for Textbook/Instructional Materials	136,041	0	0
Unreserved:			
Undesignated, Unreserved Reported in:			
General Fund	(608,294)	0	0
Special Revenue Funds	0	0	0
Debt Service Fund	0	673,094	0
Capital Projects Funds	0	0	1,323,461
Total Fund Balances	<u><u>(341,637)</u></u>	<u><u>700,321</u></u>	<u><u>1,360,296</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 2,996,262</u></u>	<u><u>\$ 1,504,039</u></u>	<u><u>\$ 1,767,321</u></u>

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

<u>Classroom Facilities Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,496,124	\$ 1,009,228	\$ 4,949,591
0	0	136,041
0	183,925	183,925
0	0	62,827
0	289,969	289,969
0	47,245	3,616,941
0	32,778	87,597
0	1,302	1,302
0	29,888	29,888
0	2,470	2,470
<u>\$ 1,496,124</u>	<u>\$ 1,596,805</u>	<u>\$ 9,360,551</u>
\$ 700	\$ 3,514	\$ 48,064
880,581	0	880,581
0	57,520	910,168
2,986	9,083	71,229
0	1,337	150,555
0	75,466	3,519,232
<u>884,267</u>	<u>146,920</u>	<u>5,579,829</u>
0	20,990	89,738
0	2,470	2,470
0	1,667	127,597
0	0	136,041
0	0	(608,294)
0	566,566	566,566
0	0	673,094
<u>611,857</u>	<u>858,192</u>	<u>2,793,510</u>
<u>611,857</u>	<u>1,449,885</u>	<u>3,780,722</u>
<u>\$ 1,496,124</u>	<u>\$ 1,596,805</u>	<u>\$ 9,360,551</u>

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East Palestine City School District

Balance Sheet

Governmental Funds

June 30, 2004

Total Governmental Fund Balances	\$	3,780,722
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	21,500,985
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Grants	\$ 29,888	
Delinquent Property Taxes	<u>357,666</u>	387,554

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

423,528

Intergovernmental payables include contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.

(138,667)

Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(208,973)	
Bond Anticipation Notes	(3,897,000)	
Compensated Absences	(581,525)	
Capital Leases Payable	<u>(129,494)</u>	<u>(4,816,992)</u>

Net Assets of Governmental Activities

\$ 21,137,130

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

East Palestine City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	Permanent Improvement Capital Projects
Revenues:			
Taxes	\$ 1,988,379	\$ 744,568	\$ 396,984
Intergovernmental	6,491,329	91,965	49,294
Investment income	0	0	0
Tuition and fees	382,393	0	0
Extracurricular activities	0	0	0
Rentals	2,400	0	0
Charges for services	0	0	0
Contributions and Donations	4,800	0	0
Miscellaneous	70,578	0	0
<i>Total Revenues</i>	<u>8,939,879</u>	<u>836,533</u>	<u>446,278</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,199,958	0	1,681
Special	431,050	0	0
Vocational	77,027	0	0
Adult continuing	0	0	0
Support services:			
Pupils	607,029	0	0
Instructional staff	382,542	0	10,208
Board of education	77,149	0	0
Administration	846,803	0	0
Fiscal	214,691	22,305	9,054
Business	437,148	0	0
Operation and maintenance of plant	901,220	0	0
Pupil transportation	413,503	0	16,241
Operation of non-instructional services	3,750	0	0
Extracurricular activities	171,811	0	0
Capital outlay	145,000	0	190,872
Debt service:			
Principal retirement	47,215	4,604,545	0
Interest and fiscal charges	5,208	91,939	0
<i>Total Expenditures</i>	<u>8,961,104</u>	<u>4,718,789</u>	<u>228,056</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(21,225)</u>	<u>(3,882,256)</u>	<u>218,222</u>
Other Financing Sources (Uses):			
Inception of capital lease	145,000	0	0
Proceeds of notes	0	3,897,000	0
Other financing sources	0	4,606	0
Transfers in	0	33,667	0
Transfers out	(59,424)	0	0
<i>Total Financing Sources and (Uses)</i>	<u>85,576</u>	<u>3,935,273</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	64,351	53,017	218,222
<i>Fund balance at beginning of year</i>	<u>(405,988)</u>	<u>647,304</u>	<u>1,142,074</u>
<i>Increase (decrease) in reserve for inventory</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund balance at end of year</i>	<u>\$ (341,637)</u>	<u>\$ 700,321</u>	<u>\$ 1,360,296</u>

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

Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 44,885	\$ 3,174,816
3,666,987	1,101,914	11,401,489
14,969	35,784	50,753
0	900	383,293
0	190,449	190,449
0	0	2,400
0	236,600	236,600
0	13,208	18,008
0	1,144	71,722
<u>3,681,956</u>	<u>1,624,884</u>	<u>15,529,530</u>
0	105,373	4,307,012
0	455,499	886,549
0	0	77,027
0	1,420	1,420
0	86,949	693,978
0	43,579	436,329
0	0	77,149
15,588	50,191	912,582
521	1,026	247,597
0	0	437,148
12,782	63,842	977,844
0	17,265	447,009
0	505,467	509,217
0	195,188	366,999
8,552,597	40	8,888,509
0	0	4,651,760
<u>2,986</u>	<u>9,083</u>	<u>109,216</u>
<u>8,584,474</u>	<u>1,534,922</u>	<u>24,027,345</u>
<u>(4,902,518)</u>	<u>89,962</u>	<u>(8,497,815)</u>
0	0	145,000
0	0	3,897,000
0	0	4,606
0	25,757	59,424
0	0	(59,424)
<u>0</u>	<u>25,757</u>	<u>4,046,606</u>
(4,902,518)	115,719	(4,451,209)
<u>5,514,375</u>	<u>1,336,412</u>	<u>8,234,177</u>
<u>0</u>	<u>(2,246)</u>	<u>(2,246)</u>
<u>\$ 611,857</u>	<u>\$ 1,449,885</u>	<u>\$ 3,780,722</u>

East Palestine City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (4,451,209)

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

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

Capital Asset Additions	\$ 7,462,931	
Current Year Depreciation	<u>(473,189)</u>	6,989,742

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

Grants	(4,429,420)	
Delinquent Property Taxes	<u>(16,286)</u>	(4,445,706)

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

Bond Principal	4636254	
Capital Leases	<u>15,506</u>	4,651,760

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

Bond Principal	(145,000)	
Capital Leases	<u>(3,897,000)</u>	(4,042,000)

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

Compensated Absences	(3,403)	
Pension Obligation	(61,091)	
Change in Inventory	<u>(2,246)</u>	(66,740)

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

(205,173)

Change in Net Assets of Governmental Activities \$ (1,569,326)

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

East Palestine City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
 General Fund
 For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,914,425	\$ 1,914,425	\$ 1,988,628	\$ 74,203
Intergovernmental	6,461,408	6,465,579	6,491,329	25,750
Tuition and Fees	539,998	539,998	382,393	(157,605)
Rentals	0	0	2,400	2,400
Contributions and Donations	300	300	4,800	4,500
Miscellaneous	25,000	25,000	15,759	(9,241)
<i>Total Revenues</i>	8,941,131	8,945,302	8,885,309	(59,993)
Expenditures:				
Current				
Instruction	4,709,035	4,779,223	4,675,205	104,018
Support Services				
Pupils	557,508	557,508	585,221	(27,713)
Instructional Staff	405,371	405,371	398,946	6,425
Board of Education	82,370	82,370	77,260	5,110
Administration	828,500	828,500	850,359	(21,859)
Fiscal	191,502	191,502	210,948	(19,446)
Business	789,711	812,211	492,894	319,317
Operation and Maintenance of Plant	1,044,910	1,044,910	938,047	106,863
Pupil Transportation	391,121	391,121	416,801	(25,680)
Central	3,000	3,000	0	3,000
Operation of Non-Instructional Services	500	500	3,750	(3,250)
Extracurricular Activities	144,700	144,700	171,642	(26,942)
Debt Service				
Principal Retirement	50,000	50,000	31,709	18,291
Interest and Fiscal Charges	10,000	10,000	3,885	6,115
<i>Total Expenditures</i>	9,208,228	9,300,916	8,856,667	444,249
Excess of Revenues Over (Under) Expenditures	(267,097)	(355,614)	28,642	384,256
Other Financing Sources (Uses):				
Other Financing Uses	(2,500)	(2,500)	0	2,500
Advances Out	(35,000)	(35,000)	0	35,000
Transfers In	221,094	221,094	203,435	(17,659)
Transfers Out	(220,000)	(220,000)	(203,435)	16,565
<i>Total Other Financing Sources (Uses)</i>	(36,406)	(36,406)	0	36,406
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(303,503)	(392,020)	28,642	420,662
<i>Fund Balance at Beginning of Year</i>	363,679	363,679	363,679	0
Prior Year Encumbrances Appropriated	116,660	116,660	116,660	0
<i>Fund Balance at End of Year</i>	\$ 176,836	\$ 88,319	\$ 508,981	\$ 420,662

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

East Palestine City School District
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Governmental Activities Internal Service Fund
Assets	
Cash and Cash Equivalents with Fiscal Agents	\$ 546,209
<i>Total Assets</i>	<u>546,209</u>
Liabilities	
Claims Payable	<u>122,681</u>
<i>Total Liabilities</i>	<u>122,681</u>
Net Assets	
Unrestricted	<u>423,528</u>
<i>Total Net Assets</i>	<u><u>\$ 423,528</u></u>

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

East Palestine City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for services	\$ 970,856
<i>Total Operating Revenues</i>	<u>970,856</u>
Operating Expenses:	
Fringe benefits	17,578
Purchased services	82,542
Materials and supplies	2,340
Claims	1,076,677
Other	629
<i>Total Operating Expenses</i>	<u>1,179,766</u>
Operating loss	<u>(208,910)</u>
Non-Operating Revenues (Expenses):	
Interest	<u>3,737</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>3,737</u>
<i>Change in Net Assets</i>	(205,173)
<i>Net Assets (Deficit) Beginning of Year</i>	<u>628,701</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$ 423,528</u></u>

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

East Palestine City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 970,856
Cash Paid for Goods and Services	(84,882)
Cash Paid to Employees	(17,578)
Cash Paid for Claims	(1,042,798)
Other Cash Payments	(629)
	<hr/>
<i>Net Cash (Used For) Operating Activities</i>	<u>(175,031)</u>
Cash Flows From Investing Activities:	
Interest on Investments	3,737
	<hr/>
<i>Net Cash Provided By Investing Activities</i>	<u>3,737</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(171,294)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>717,503</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 546,209</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Loss	\$ (208,910)
Adjustments:	
Increase (Decrease) in Liabilities	
Claims Payable	33,879
	<hr/>
<i>Total Adjustments</i>	<u>33,879</u>
<i>Net Cash (Used For) Operating Activities</i>	<u>\$ (175,031)</u>

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

East Palestine City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	\$ 39,346
<i>Total Assets</i>	<u>39,346</u>
Liabilities	
Accounts Payable	\$ 730
Due to Students	<u>38,616</u>
<i>Total Liabilities</i>	<u>\$ 39,346</u>

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

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, 2003, was 1,437. The District employs 97 certificated and 40 non-certificated employees.

The reporting entity is required to be comprised of the primary government, component units and other organizations that are included to ensure that the 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 16. The East Palestine Public Library is a related organization of the District, which is presented in Note 15 to the basic financial statements.

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

Note 2: Summary of Significant Accounting Policies

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

Permanent Improvement Fund The permanent improvement fund is used for various capital expenditures.

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

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

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

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

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

C. Measurement Focus

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

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

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

D. Basis of Accounting

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to certificates of deposit and overnight sweep accounts.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. The School District's Board Resolution does not provide any interest allocation to the General Fund. Total interest revenue during fiscal year 2004 amounted to \$50,753.

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. There is no prepaid balance for the current year.

G. Inventory

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

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 12 for additional information regarding set asides restricted cash.

I. Capital Assets

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

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

Description	Governmental Activities Estimated Lives
Land	N/A
Buildings and Improvements	20 - 50 Years
Improvements Other Than Building:	20 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 Years

J. Interfund Balances

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

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

L. Accrued Liabilities and Long-term Obligations

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

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

M. Net Assets

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

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

N. Fund Balance Reserves

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

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

O. Operating Revenues and Expenses

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

R. Estimates

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

S. Budgetary Data

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

Note 2: Summary of Significant Accounting Policies (Continued)

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 3: Budgetary Basis of Accounting

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

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

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

	<u>General Fund</u>
Budgetary Basis	\$ 28,642
Revenue accruals	(3,865)
Expenditure accruals	(16,887)
Encumbrances	<u>56,461</u>
GAAP Basis	<u>\$ 64,351</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 4: Accountability and Compliance

Fund balances/net assets at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ 341,637
Other Governmental Funds:	
D.P.I.A	516
Title I	<u>14,689</u>
Total	<u>\$ 356,842</u>

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

Note 5: Deposits and Investments

State statutes 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.

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;

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 5: Deposits and Investments (Continued)

- 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).

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 surety 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 \$2,650,425 and the bank balance was \$3,510,561. Of the bank balance:

1. \$257,382 was covered by federal depository insurance.
2. \$3,253,179 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 \$609,036. 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 5: 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	\$ 2,700,478	\$ 2,700,478
Government Securities	<u>247,696</u>	<u>247,696</u>
	<u>\$ 2,948,174</u>	<u>\$ 2,948,174</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 Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,917,939	\$ 289,696
Certificate of Deposit with maturity of greater than three months	42,000	(42,000)
Repurchase Agreement	<u>(2,700,478)</u>	<u>2,700,478</u>
GASB Statement No. 3	<u>\$ 3,259,461</u>	<u>\$ 2,948,174</u>

Note 6: 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 2004 for real and public utility property taxes represent collections of calendar year 2003 taxes. Property tax payments received during calendar year 2004 for tangible personal property (other than public utility property) is for calendar year 2004 taxes.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 6: Property Taxes (Continued)

2004 real property taxes are levied after April 1, 2004 on the assessed value as of January 1, 2004, 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. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004, and are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003 on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003		2004	
	Second-Half Collections		First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and other real estate	\$ 83,240,750	76%	\$ 80,976,410	76%
Commercial Industrial	11,167,750	10%	11,062,800	10%
Tangible Personal Property	<u>14,597,695</u>	<u>14%</u>	<u>14,924,620</u>	<u>14%</u>
Total Assessed Value	<u>\$ 109,006,195</u>	<u>100%</u>	<u>\$ 106,963,830</u>	<u>100%</u>
Tax rate per \$1,000 of assessed value		<u>\$ 33.30</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, 2004 are available to finance fiscal year 2004 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 6: 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, 2004. 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, 2004 was \$127,597.

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EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 7: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2004 was as follows:

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities:				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 475,814	\$ 90,571	\$ 0	\$ 566,385
Construction in progress	0	7,279,367	0	7,279,367
Total capital assets, not being depreciated	475,814	7,369,938	0	7,845,752
<i>Capital Assets, being depreciated:</i>				
Land Improvements	277,160	0	0	277,160
Building and building improvements	15,680,522	30,479	0	15,711,001
Furniture and equipment	513,287	0	0	513,287
Vehicles	849,614	62,514	0	912,128
Total capital assets, being depreciated	17,320,583	92,993	0	17,413,576
Less accumulated depreciation:				
Land Improvements	(270,469)	(4,942)	0	(275,411)
Building and building improvements	(2,209,941)	(378,362)	0	(2,588,303)
Furniture and equipment	(279,213)	(22,713)	0	(301,926)
Vehicles	(525,531)	(67,172)	0	(592,703)
Total accumulated depreciation	(3,285,154)	(473,189)	0	(3,758,343)
Total capital assets being depreciated, net	14,035,429	(380,196)	0	13,655,233
Governmental activities capital assets, net	<u>\$ 14,511,243</u>	<u>\$ 6,989,742</u>	<u>\$ 0</u>	<u>\$ 21,500,985</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 379,287
Support Services:	
Administration	7,893
Pupil Transportation	65,440
Operation of Non-Instructional Services	5,237
Extracurricular Activities	15,332
	<u>473,189</u>
Total depreciation expense	<u>\$ 473,189</u>

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8: Long-Term Obligations

The changes in the District's long-term obligations during the fiscal year 2004 were as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due in One Year
Final Judgment Bonds, 4.40% interest rate, maturing June 2004	\$ 81,952	\$ 0	\$ (81,952)	\$ 0	\$ 0
General Obligation Bonds, 10.875% interest rate, maturing December 2004	130,000	0	(65,000)	65,000	65,000
Energy Conservation Bonds, 4.21% interest rate, maturing April 2007	196,276	0	(52,303)	143,973	46,154
Bond Anticipation Note, 2.38% interest rate, maturing September 2004	1,082,880	953,280	(1,082,880)	953,280	953,280
Bond Anticipation Note, 1.60% interest rate, maturing September 2004	3,354,120	2,943,720	(3,354,120)	2,943,720	2,943,720
Capital lease payable	0	145,000	(15,506)	129,494	47,412
Compensated absences payable	578,121	3,404	0	581,525	33,739
Total long-term obligations	\$ 5,423,349	\$ 4,045,404	\$ (4,651,761)	\$ 4,816,992	\$ 4,089,305

General obligation bonds and bond anticipation notes were issued to provide funds for the acquisition and construction of facilities and equipment. Energy conservation notes and bonds were issued to provide for energy improvements to various buildings. 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 \$9,601,586 at June 30, 2004.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8: Long-Term Obligations (Continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2004 are as follows:

Years ending June 30,	General Obligation Bonds		Energy Conservation Bonds		Bond Anticipation Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 65,000	\$ 3,534	\$ 46,154	\$ 4,752	\$ 3,897,000	\$ 79,438	\$ 4,008,154	\$ 87,724
2006	0	0	52,420	3,114	0	0	52,420	3,114
2007	0	0	45,399	881	0	0	45,399	881
	<u>\$ 65,000</u>	<u>\$ 3,534</u>	<u>\$ 143,973</u>	<u>\$ 8,747</u>	<u>\$ 3,897,000</u>	<u>\$ 79,438</u>	<u>\$ 4,105,973</u>	<u>\$ 91,719</u>

Note 9: Defined Benefit Pension Plans

A. State Teachers Retirement System

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

Note 9: Defined Benefit Pension Plans (Continued)

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

Plan members are required to contribute 10.0% of their annual covered salary and the District is required to contribute 14%; 13.0% 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, 2004, 2003 and 2002 were \$636,696, \$678,000 and \$649,356, respectively; 85% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$98,284, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

Plan members are required to contribute 10% 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. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$190,836, \$174,612 and \$166,128, respectively; 45% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$105,612, representing the unpaid contribution for fiscal year 2004, 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, 2004, two members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 10: Postemployment Benefits

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2004, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$45,478 during fiscal 2004.

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

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

After the allocation for base benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll, a decrease from 5.83% for fiscal year 2003. 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 2004, the minimum pay has been established at \$25,400. 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, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$147,723 during the 2004 fiscal year.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 11: Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 260 days for all employees. Upon retirement, certificated employees receive payment for 25% 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 12: 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, 2004, the reserve activity was as follows:

	Textbook Reserve	Capital Acquisition	Totals
Set-aside balance as of June 30, 2003	\$ 127,050	\$ 0	\$ 127,050
Current year set-aside requirement	203,435	203,435	406,870
Current year offsets	0	(444,240)	(444,240)
Current year qualifying disbursements	(194,444)	0	(194,444)
Total	<u>\$ 136,041</u>	<u>\$ (240,805)</u>	<u>\$ (104,764)</u>
Balance carried forward to FY 2005	<u>\$ 136,041</u>	<u>\$ 0</u>	
Cash balance carried forward to FY 2005	<u>\$ 136,041</u>	<u>\$ 0</u>	

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 12: Statutory Reserves (Continued)

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

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

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for textbooks	<u>\$ 136,041</u>
---------------------------------	-------------------

Note 13: Contractual Commitments

As of June 30, 2004, the District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 06/30/04
<u>Ohio School Facilities Commission Project</u>			
NEC, International	\$ 1,139,875	\$ 593,491	\$ 546,384
Waynco Electrical Contractors	819,235	678,893	140,342
Kreidler Construction	3,321,637	2,242,456	1,079,181
Komar Plumbing Co.	613,526	484,195	129,331
Conti Corp.	2,920,191	2,390,174	530,017
S.A. Comunale Co., Inc.	461,750	272,908	188,842
Ricciuti Balog & Partners	<u>700,000</u>	<u>617,250</u>	<u>82,750</u>
Totals	<u>\$ 9,976,214</u>	<u>\$ 7,279,367</u>	<u>\$ 2,696,847</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

Note 14: 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 2004, the District has property and liability insurance coverage as follows:

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

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

B. Fidelity Bond

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

C. Workers' Compensation

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004

Note 14: Risk Management (Continued)

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 \$122,681 reported in the internal service fund at June 30, 2004 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 2004 and 2003 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2004	<u>\$ 88,802</u>	<u>\$ 1,110,554</u>	<u>\$ 1,076,675</u>	<u>\$ 122,681</u>
2003	<u>\$ 116,885</u>	<u>\$ 764,970</u>	<u>\$ 793,053</u>	<u>\$ 88,802</u>

Note 15: 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 2004.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

Note 16: 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 \$40,616 for services provided during fiscal year 2004.

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 17: 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, 2004.

B. Litigation

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 18: State School Funding

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

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 25, 2005

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District (the "District") as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated January 25, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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 January 25, 2005.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 25, 2005

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 the 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, 2004. 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, the 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, 2004.

Internal Control Over Compliance

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

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

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

Hea & Associates, Inc.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

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 I, Part A	84.010	C1S1 - 2004	\$ 321,953		\$ 293,575	
Total Title I			321,953		293,575	
Special Education Cluster:						
Special Education Grants to States	84.027	6BSF - 2003	0		4,827	
		6BSF - 2004	194,370		190,075	
Special Education - Preschool Grants	84.173	PGS1 - 2004	8,840		8,840	
Total Special Education Cluster			203,210		203,742	
Title VI Ed Improve & Consol	84.298	C2S1 - 2004	7,960		7,960	
Total Title VI			7,960		7,960	
Safe, Drug-Free Schools & Communities Act Grant	84.186	DRS1 - 2004	10,044		10,044	
Total Safe, Drug-Free Schools			10,044		10,044	
Raising the Bar Grant	84.318	TJS1 - 2002	0		4,925	
Technology Literacy Challenge Fund Grant	84.318	TJS1 - 1999	0		159	
		TJS1 - 2002	0		1,621	
		TJS1 - 2003	2,247		4,438	
		TJS1 - 2004	9,523		4,084	
Total Technology Literacy Challenge Fund Grant			11,770		15,227	
Title II-A Teacher Quality	84.367	TRS1 - 2003	32,892		32,892	
		TJS1 - 2004	55,082		54,486	
Total Title II-A Teacher Quality			87,974		87,378	
Total U. S. Department of Education			642,911		617,926	
U. S. DEPARTMENT OF AGRICULTURE						
Passed through Ohio Department of Education:						
Nutrition Cluster:						
Food Distribution Program	10.550	FY04		\$ 39,732		\$ 39,732
School Breakfast Program	10.553	05PU - 2003	3,523		3,523	
		05PU - 2004	38,734		38,734	
Total School Breakfast Program			42,257		42,257	
National School Lunch Program	10.555	LLP4 - 2003	21,125		21,125	
		LLP4 - 2004	153,273		153,273	
Total National School Lunch Program			174,398		174,398	
Total US Department of Agriculture - Nutrition Cluster			216,655	39,732	216,655	39,732
Total Federal Financial Assistance			\$ 859,566	\$ 39,732	\$ 834,581	\$ 39,732

See accompanying notes to schedule of expenditures of federal awards.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

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, 2004, 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, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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)?	No
(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): Nutrition Cluster	CFDA # 10.550, 10.553 & 10.555
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2004

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
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NONE	
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS	
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NONE	
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4. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
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NONE	
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**Auditor of State
Betty Montgomery**

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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
MARCH 3, 2005**