

**EAST PALESTINE CITY
SCHOOL DISTRICT**



**AUDITED FINANCIAL STATEMENTS
JUNE 30, 1999**

**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 1999

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|--------------------|
| Independent Auditor's Report..... | 1 |
| Combined Balance Sheet – All Fund Types and Account Groups..... | 2-3 |
| Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Fund..... | 4 |
| Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Comparison (Non-GAAP – Budgetary Basis) All Governmental Fund Types..... | 5 |
| Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – All Proprietary Fund Types and Nonexpendable Trust Fund..... | 6 |
| Combined Statement of Cash Flows – All Proprietary Fund Types and Nonexpendable Trust Fund..... | 7 |
| Notes to the General Purpose Financial Statements..... | 8-45 |
| Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards..... | 46 |
| 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..... | 47-48 |
| Schedule of Expenditures of Federal Awards..... | 49 |
| Notes to Schedule of Expenditures of Federal Awards..... | 50 |
| Statement of Findings & Questioned Costs..... | 51 |



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215

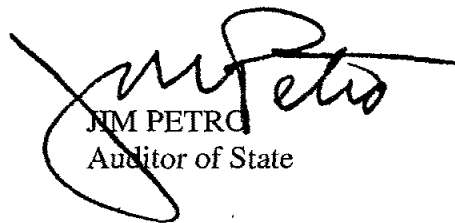
Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398

To the Board of Education
East Palestine City School District
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, 1998 to June 30, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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


JIM PETRO
Auditor of State

January 7, 2000

122 Fourth Street N.W.
P. O. Box 1020
New Philadelphia, Ohio 44663-5120
330 - 339 - 6651

Rea & Associates, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

December 14, 1999

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

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of East Palestine City School District (the "District") as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of East Palestine City School District as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated December 14, 1999 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.

Rea & Associates, Inc.

Columbus
New Philadelphia
Millersburg
Coshocton
Cambridge
Marietta
Medina
Lima

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

| | Governmental Fund Types | | | | Proprietary Fund Types | | Fiduciary Fund Types | | Account Groups | | | Total (Memorandum Only) |
|--|-------------------------|------------------|--------------------|--------------------|------------------------|------------------|----------------------|---------|---------------------|--------------------|-----------------------|-------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General | General | | Long-Term Obligations | |
| | | | | | | | | | Fixed Assets | | | |
| ASSETS AND OTHER DEBITS | | | | | | | | | | | | |
| ASSETS: | | | | | | | | | | | | |
| Equity in pooled cash and cash equivalents | \$11,701 | \$300,045 | \$574,369 | \$510,806 | \$60,434 | \$132,732 | \$47,504 | | | | | \$1,637,591 |
| Equity in pooled cash and cash equivalents - nonexpendable trust fund | | | | | | | | 76,688 | | | | 76,688 |
| Investments | 1,000,000 | | | | | | | | | | | 1,000,000 |
| Cash with fiscal agent | | | | | | | | | | | | |
| Investments in segregated accounts | | | | | | | | | | | | |
| Receivables (net of allowances of uncollectibles): | | | | | | | | | | | | |
| Property taxes - current & delinquent | 1,944,442 | | 702,016 | 491,392 | | 172,220 | | | | | | 172,220 |
| Accounts receivable | 124 | | | 1,003 | | | | | | | | 1,003 |
| Interfund loan receivable | | | | | | | | | | | | 124 |
| Due from other governments | | | | | | | | | | | | |
| Due from other funds | | | | | | | | | | | | |
| Advances to other funds | 5,432 | | | | | | | | | | | 5,432 |
| Prepayments | 7,240 | | | | | | | | | | | 7,240 |
| Materials and supplies inventory | | | | | | | 2,896 | | | | | 2,896 |
| Restricted assets: | | | | | | | | | | | | |
| Equity in pooled cash and cash equivalents | 117,095 | | | | | | | | | | | 117,095 |
| Property, plant and equipment (net of accumulated depreciation where applicable) | | | | | | | | | | | | |
| | | | | | | | | | \$13,055,709 | | | 13,102,061 |
| OTHER DEBITS: | | | | | | | | | | | | |
| Amount available in debt service fund | | | | | | | | | | | \$592,069 | 592,069 |
| Amount to be provided for retirement of general long-term obligations | | | | | | | | | | | 1,074,207 | 1,074,207 |
| Total assets and other debits | \$3,086,034 | \$364,331 | \$1,276,385 | \$1,003,201 | \$109,682 | \$304,952 | \$124,192 | | \$13,055,709 | \$1,666,276 | | \$20,990,762 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 1999

| | Governmental Fund Types | | | | Proprietary Fund Types | | | Fiduciary Fund Types | | Account Groups | | Total (Memorandum Only) |
|--|-------------------------|------------------|--------------------|--------------------|------------------------|------------------|------------------|----------------------|---------------------|--------------------|-----------------------|-------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General | Fixed Assets | General | Long-Term Obligations | |
| | | | | | | | | | | | | |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | | | |
| Accounts payable | \$33,481 | \$6,285 | | \$229,374 | \$71,151 | | | | | | | \$340,291 |
| Accrued wages and benefits | 643,790 | 43,334 | | 10 | | | | | | | | 687,134 |
| Compensated absences payable | 5,213 | | | | | | | | | | \$422,833 | 428,046 |
| Pension obligation payable | 110,512 | 6,884 | | 13,534 | | | | | | | 64,354 | 195,284 |
| Advances from other funds | | 3,243 | \$1,653 | | | | \$536 | | | | | 5,432 |
| Deferred revenue | 1,889,902 | | 682,663 | 477,318 | 1,765 | | | | | | | 3,051,648 |
| Due to students | | | | | | | 31,092 | | | | | 31,092 |
| Claims payables | | | | | | \$92,614 | | | | | | 92,614 |
| General obligation bonds payable | | | | | | | | | | | 390,000 | 390,000 |
| Energy conservation notes payable | | | | | | | | | | | 397,120 | 397,120 |
| Final judgement bonds payable | | | | | | | | | | | 350,000 | 350,000 |
| Notes payable | | | | 4,600,000 | | | | | | | 41,969 | 4,600,000 |
| Obligation under capital lease | | | | | | | | | | | | 41,969 |
| Total liabilities | 2,682,898 | 59,746 | 684,316 | 5,306,692 | 86,460 | 92,614 | 31,628 | 1,666,276 | 13,055,709 | 4,071 | 231,489 | 13,055,709 |
| EQUITY AND OTHER CREDITS: | | | | | | | | | | | | |
| Investment in general fixed assets | | | | | | | | | | | | 4,071 |
| Contributed capital | | | | | 4,071 | | | | | | | 4,071 |
| Retained earnings: unreserved | | | | | 19,151 | 212,338 | | | | | | 231,489 |
| Fund balances: | | | | | | | | | | | | |
| Reserved for encumbrances | 201,275 | 92,070 | | 59,638 | | | 100 | | | | | 353,083 |
| Reserved for prepayments | 7,240 | | | | | | | | | | | 7,240 |
| Reserved for debt service | | | 572,716 | | | | | | | | | 572,716 |
| Reserved for tax revenue unavailable for appropriation | 54,540 | | 19,353 | 14,074 | | | | | | | | 87,967 |
| Reserved for principal endowment | | | | | | | | | | | 76,688 | 76,688 |
| Reserved for budget stabilization | 117,095 | | | | | | | | | | | 117,095 |
| Reserved for advances | 5,432 | | | | | | | | | | | 5,432 |
| Unreserved-undesignated (deficit) | 17,554 | 212,515 | | (4,377,203) | | | 15,776 | | | | | (4,131,358) |
| Total equity and other credits | 403,136 | 304,585 | 592,069 | (4,303,491) | 23,222 | 212,338 | 92,564 | 13,055,709 | 13,055,709 | \$1,666,276 | \$1,666,276 | \$20,990,762 |
| Total liabilities, equity and other credits | \$3,086,034 | \$364,331 | \$1,276,385 | \$1,003,201 | \$109,682 | \$304,952 | \$124,192 | \$13,055,709 | \$13,055,709 | \$1,666,276 | \$1,666,276 | \$20,990,762 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

| | Governmental Fund Types | | | Fiduciary | Total (Memorandum Only) |
|--|-------------------------|--------------------|------------------|----------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | |
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes | \$1,581,439 | | \$88,722 | \$949,227 | \$2,619,388 |
| Earnings on investments | | | | 137,912 | 138,522 |
| Other local revenues | 214,953 | \$166,952 | | | 382,205 |
| Intergovernmental - State | 5,790,461 | 81,249 | 10,943 | 685,105 | 6,567,758 |
| Intergovernmental - Federal | | 425,488 | | | 425,488 |
| Total revenue | <u>7,586,853</u> | <u>673,689</u> | <u>99,665</u> | <u>1,772,244</u> | <u>10,133,361</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 3,441,488 | | | 18,855 | 3,460,343 |
| Special | 312,083 | 329,167 | | | 641,250 |
| Vocational | 123,665 | | | | 123,665 |
| Other | 12,108 | | | | 12,108 |
| Support services: | | | | | |
| Pupil | 411,099 | 39,761 | | | 450,860 |
| Instructional staff | 340,815 | 6,118 | | 82,116 | 429,049 |
| Board of Education | 26,373 | | | | 26,373 |
| Administration | 710,089 | 32,465 | | | 742,554 |
| Fiscal | 181,787 | 2,050 | 17,856 | 8,234 | 209,927 |
| Business | 153,590 | | | | 153,590 |
| Operations and maintenance | 916,487 | 1,205 | | 28,002 | 945,694 |
| Pupil transportation | 306,547 | 11,762 | | | 318,309 |
| Central | 868 | | | | 868 |
| Community services | | | | | 680 |
| Extracurricular activities | 113,256 | 159,160 | | | 272,416 |
| Facilities services | 229,132 | | | 640,017 | 869,149 |
| Debt service: | | | | | |
| Principal retirement | 9,230 | | 109,846 | | 119,076 |
| Interest and fiscal charges | 3,761 | | 70,470 | 210,000 | 284,231 |
| Total expenditures | <u>7,292,378</u> | <u>581,688</u> | <u>198,172</u> | <u>987,224</u> | <u>9,060,142</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>294,475</u> | <u>92,001</u> | <u>(98,507)</u> | <u>785,020</u> | <u>1,073,219</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers in | | 13,320 | | | 13,320 |
| Operating transfers out | (38,566) | | | (3,777) | (42,343) |
| Premium on notes sold | | | | 278 | 278 |
| Proceeds from sale of assets | | | | 48,000 | 48,000 |
| Proceeds from sale of bonds | | | | 350,000 | 350,000 |
| Total other financing sources (uses) | <u>(38,566)</u> | <u>13,320</u> | | <u>394,501</u> | <u>369,255</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | <u>255,909</u> | <u>105,321</u> | <u>(98,507)</u> | <u>1,179,521</u> | <u>1,442,474</u> |
| Fund balances (deficit), July 1 (restated) | <u>147,227</u> | <u>199,264</u> | <u>690,576</u> | <u>(5,483,012)</u> | <u>(4,430,299)</u> |
| Fund balances (deficit), June 30 | <u>\$403,136</u> | <u>\$304,585</u> | <u>\$592,069</u> | <u>(\$4,303,491)</u> | <u>(\$2,987,825)</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

| | General | | | | Special Revenue | | | | Debt Service | | | | Capital Projects | | | | Total (Memorandum only) | | | |
|--|-------------|-------------|---|--|-----------------|-----------|---|--|--------------|-------------|---|--|------------------|-------------|---|--|-------------------------|-------------|---|--|
| | Revised | Actual | Variance: Favorable (Unfavorable) | | Revised | Actual | Variance: Favorable (Unfavorable) | | Budget | Actual | Variance: Favorable (Unfavorable) | | Budget | Actual | Variance: Favorable (Unfavorable) | | Budget | Actual | Variance: Favorable (Unfavorable) | |
| | Budget | | | | Budget | | | | Revised | | | | Revised | | | | Revised | | | |
| Revenues: | | | | | | | | | | | | | | | | | | | | |
| From local sources: | | | | | | | | | | | | | | | | | | | | |
| Taxes | \$1,701,565 | \$1,663,720 | (\$37,845) | | \$4,339 | \$3,778 | (\$561) | | \$574,608 | \$572,270 | (\$2,338) | | \$105,891 | \$399,805 | \$93,914 | | \$2,582,064 | \$2,635,795 | \$53,731 | |
| Earnings on investments | | 91,351 | (2,078) | | 192,807 | 167,874 | (24,933) | | 101,859 | 133,132 | 31,273 | | 106,198 | 136,910 | 30,712 | | 106,198 | 136,910 | 30,712 | |
| Other local revenues | 5,922,179 | 5,790,461 | (131,718) | | 523,634 | 455,921 | (67,713) | | 70,406 | 70,119 | (287) | | 478,898 | 625,929 | 147,031 | | 286,236 | 259,225 | (27,011) | |
| Intergovernmental - State | | | | | | | | | | | | | | | | | | | | |
| Intergovernmental - Federal | | | | | | | | | | | | | | | | | | | | |
| Total revenues | 7,717,173 | 7,545,532 | (171,641) | | 814,096 | 708,822 | (105,274) | | 645,014 | 642,389 | (2,625) | | 886,648 | 1,158,866 | 272,218 | | 10,063,932 | 10,053,609 | (10,323) | |
| Expenditures: | | | | | | | | | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | | | | | | | | | |
| Instruction: | 3,600,227 | 3,482,193 | 118,034 | | 47,611 | 47,611 | | | | | | | | | | | | | | |
| Regular | 318,071 | 311,790 | 6,281 | | 354,040 | 343,537 | 10,503 | | | | | | | | | | | | | |
| Special | 128,312 | 122,312 | 6,000 | | | | | | | | | | | | | | | | | |
| Vocational | 12,108 | 11,108 | 9,000 | | | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | | | | | |
| Support services: | 438,067 | 417,314 | 20,753 | | 50,477 | 46,323 | 4,154 | | | | | | | | | | | | | |
| Pupil | 371,037 | 335,867 | 35,170 | | 9,857 | 9,468 | 389 | | | | | | | | | | | | | |
| Instructional staff | 30,706 | 29,886 | 820 | | 29,066 | 27,703 | 1,363 | | | | | | | | | | | | | |
| Board of Education | 724,975 | 690,296 | 34,679 | | 2,533 | 2,036 | 497 | | 25,750 | 17,857 | 7,893 | | 160,000 | 158,234 | 1,766 | | 379,688 | 351,481 | 28,207 | |
| Administration | 191,405 | 173,354 | 18,051 | | | | | | | | | | | | | | | | | |
| Fiscal | 266,624 | 260,760 | 5,864 | | 5,000 | 1,205 | 3,795 | | 67,046 | | 117 | | | | | | | | | |
| Business | 1,056,598 | 1,005,603 | 50,995 | | 13,500 | 12,773 | 727 | | | | | | | | | | | | | |
| Operations and maintenance | 345,214 | 314,699 | 30,515 | | | | | | | | | | | | | | | | | |
| Pupil transportation | 375 | 368 | 7 | | | | | | | | | | | | | | | | | |
| Central | 500 | 500 | | | 202,296 | 181,477 | 20,819 | | | | | | | | | | | | | |
| Community services | 116,089 | 113,141 | 2,948 | | 17,531 | 17,231 | 300 | | | | | | | | | | | | | |
| Extracurricular activities | 105,813 | 105,592 | 221 | | | | | | | | | | | | | | | | | |
| Facilities acquisition & construction | | | | | | | | | | | | | | | | | | | | |
| Capital outlay | | | | | | | | | | | | | | | | | | | | |
| Debt service: | | | | | | | | | | | | | | | | | | | | |
| Principal retirement | 50,828 | 50,828 | | | | | | | 5,065,000 | 5,065,000 | | | | | | | | | | |
| Interest and fiscal charges | 24,172 | 18,541 | 5,631 | | 731,911 | 689,364 | 42,547 | | 308,515 | 255,947 | 52,568 | | 1,362,991 | 1,273,205 | 89,786 | | 1,949,339 | 1,946,028 | 3,311 | |
| Total expenditures | 7,776,121 | 7,433,652 | 332,469 | | | | | | 5,399,265 | 5,338,804 | 60,461 | | 1,691,065 | 1,949,339 | (258,274) | | 15,598,362 | 15,421,159 | 177,203 | |
| Excess (deficiency) of revenues over (under) expenditures | (58,948) | 101,880 | 160,828 | | 82,185 | 19,458 | (62,727) | | (4,754,251) | (4,696,415) | 57,836 | | (804,417) | (790,473) | 13,944 | | (5,535,430) | (5,365,550) | 169,880 | |
| Other financing sources (uses): | | | | | | | | | | | | | | | | | | | | |
| Refund of prior year's expenditures | 126,532 | 123,718 | (2,814) | | 64 | 56 | (8) | | | | | | | | | | | | | |
| Operating transfers in | 5,473 | (38,566) | (44,039) | | 10,960 | 9,543 | (1,417) | | | | | | | | | | | | | |
| Operating transfers (out) | (124,403) | | | | | | | | | | | | | | | | | | | |
| Advances in | (30,000) | 46,325 | 76,325 | | (46,325) | (46,325) | | | | | | | | | | | | | | |
| Advances (out) | | | | | | | | | | | | | | | | | | | | |
| Premium on notes sold | | | | | | | | | | | | | | | | | | | | |
| Proceeds from sale of notes | | | | | | | | | | | | | | | | | | | | |
| Proceeds from sale of bonds | | | | | | | | | | | | | | | | | | | | |
| Proceeds from sale of assets | | | | | | | | | | | | | | | | | | | | |
| Total other financing sources (uses) | 24,981 | 131,477 | 106,496 | | (35,300) | (36,726) | (1,426) | | 4,619,076 | 4,600,000 | (19,076) | | 267,785 | 350,000 | 82,215 | | 4,619,076 | 4,600,000 | (19,076) | |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | (33,967) | 233,357 | 267,324 | | 46,885 | (17,268) | (64,153) | | (135,175) | (96,137) | 39,038 | | (499,907) | (392,473) | 107,434 | | (5,535,430) | (5,365,550) | 169,880 | |
| Prior year encumbrances appropriated | 550,132 | 550,132 | | | 195,305 | 195,305 | | | 670,507 | 670,507 | | | 586,218 | 2,002,162 | 1,425,944 | | 2,002,162 | 2,002,162 | | |
| Fund balances, July 1 | 116,392 | 116,392 | | | 22,642 | 22,642 | | | | | | | 211,531 | 211,531 | | | | | | |
| Fund balances, June 30 | \$632,557 | \$699,881 | \$67,324 | | \$264,832 | \$200,679 | (\$64,153) | | \$353,332 | \$274,370 | (\$78,962) | | \$158,808 | \$1,941,172 | \$1,782,364 | | \$1,941,172 | \$1,941,172 | \$0 | |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

| | Proprietary Fund Types | | Fiduciary Fund Type | Total (Memorandum Only) |
|---|------------------------|---------------------|------------------------|-------------------------------|
| | Enterprise | Internal Service | Nonexpendable Trust | |
| Operating revenues: | | | | |
| Tuition and fees | \$3,424 | | | \$3,424 |
| Sales/charges for services | 260,195 | \$690,905 | | 951,100 |
| Investment earnings | | | \$3,077 | 3,077 |
| Other operating revenues | | | 17,712 | 17,712 |
| Total operating revenues | 263,619 | 690,905 | 20,789 | 975,313 |
| Operating expenses: | | | | |
| Personal services | 3,290 | 18,606 | | 21,896 |
| Contract services | 489,882 | 45,895 | | 535,777 |
| Materials and supplies | 37,535 | | | 37,535 |
| Depreciation | 5,741 | | | 5,741 |
| Claims expense | | 777,476 | | 777,476 |
| Other operating expense | 413 | | 3,608 | 4,021 |
| Total operating expenses | 536,861 | 841,977 | 3,608 | 1,382,446 |
| Operating income (loss) | (273,242) | (151,072) | 17,181 | (407,133) |
| Nonoperating revenues: | | | | |
| Operating grants | 211,305 | | | 211,305 |
| Federal commodities | 35,357 | | | 35,357 |
| Interest revenue | 937 | 12,862 | | 13,799 |
| Total nonoperating revenues | 247,599 | 12,862 | | 260,461 |
| Net income (loss) before transfers | (25,643) | (138,210) | 17,181 | (146,672) |
| Transfers in | 29,023 | | | 29,023 |
| Net income (loss) | 3,380 | (138,210) | 17,181 | (117,649) |
| Retained earnings/fund balance, July 1 | 15,771 | 350,548 | 59,507 | 425,826 |
| Retained earnings/fund balance, June 30 | <u>\$19,151</u> | <u>\$212,338</u> | <u>\$76,688</u> | <u>\$308,177</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

| | Proprietary Fund Types | | Fiduciary Fund Type | Total (Memorandum Only) |
|---|------------------------|---------------------|------------------------|-------------------------------|
| | Enterprise | Internal Service | Nonexpendable Trust | |
| Cash flows from operating activities: | | | | |
| Cash received from tuition and fees | \$3,424 | | | \$3,424 |
| Cash received from sales/service charges | 260,195 | \$690,905 | | 951,100 |
| Cash received from other operations | | | \$17,712 | 17,712 |
| Cash payments for personal services | (1,006) | (18,606) | | (19,612) |
| Cash payments for contract services | (473,188) | (45,895) | | (519,083) |
| Cash payments for materials and supplies | (643) | | | (643) |
| Cash payments for claims expenses | | (790,014) | | (790,014) |
| Cash payments for other expenses | (413) | | (3,608) | (4,021) |
| Net cash provided by (used in) operating activities | <u>(211,631)</u> | <u>(163,610)</u> | <u>14,104</u> | <u>(361,137)</u> |
| Cash flows from noncapital financing activities: | | | | |
| Cash received from operating grants | 211,305 | | | 211,305 |
| Cash received from interfund loans | 29,023 | | | 29,023 |
| Net cash provided by noncapital financing activities | <u>240,328</u> | | | <u>240,328</u> |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition of capital assets | (776) | | | (776) |
| Net cash used in capital and related financing activities | <u>(776)</u> | | | <u>(776)</u> |
| Cash flows from investing activities: | | | | |
| Interest received | 937 | 12,862 | 3,077 | 16,876 |
| Net cash provided by investing activities | <u>937</u> | <u>12,862</u> | <u>3,077</u> | <u>16,876</u> |
| Net increase (decrease) in cash and cash equivalents | 28,858 | (150,748) | 17,181 | (104,709) |
| Cash and cash equivalents at beginning of year | 31,576 | 455,700 | 59,507 | 546,783 |
| Cash and cash equivalents at end of year | <u>\$60,434</u> | <u>\$304,952</u> | <u>\$76,688</u> | <u>\$442,074</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | (\$273,242) | (\$151,072) | \$17,181 | (\$407,133) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 5,741 | | | 5,741 |
| Federal donated commodities | 35,357 | | | 35,357 |
| Interest reported as operating income | | | (3,077) | (3,077) |
| Changes in assets and liabilities: | | | | |
| Decrease in supplies inventory | 391 | | | 391 |
| Increase in accounts payable | 18,553 | | | 18,553 |
| Increase in accrued wages | 4 | | | 4 |
| Increase in pension obligation payable | 2,280 | | | 2,280 |
| Decrease in claims payable | | (12,538) | | (12,538) |
| Decrease in deferred revenue | (715) | | | (715) |
| Net cash provided by (used in) operating activities | <u>(\$211,631)</u> | <u>(\$163,610)</u> | <u>\$14,104</u> | <u>(\$361,137)</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The East Palestine City School District ("District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1875 through the consolidation of existing land areas and school districts. The District serves an area of approximately 36 square miles. It is located in Columbiana County, including all of the City of East Palestine, Ohio and portions of surrounding townships. The District is the 337th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 45 non-certificated employees and 97 certificated full-time teaching personnel who provide services to approximately 1,662 students and other community members. The District currently operates two elementary schools, one middle school, and one comprehensive high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are as follows:

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the District's ability to exercise significant oversight responsibility.

The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District:

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Educational Services Agency

The District is a participant with several other school districts in a jointly governed organization to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing computer services. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. The District does not have an ongoing financial interest or responsibility in the OME-RESA.

Columbiana County Career Center

The Columbiana County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the Career Center's participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write the Columbiana County Career Center, Office of the Treasurer, 9364 State Route 45, Lisbon, Ohio 44432.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

RELATED ORGANIZATION

East Palestine Public Library

The East Palestine Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the East Palestine City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the East Palestine Public Library, Clerk/Treasurer, East Palestine, Ohio.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include a nonexpendable trust fund, an expendable trust fund and an agency fund. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. The expendable trust fund is accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3 for agency fund accruals, which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS

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

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

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Property taxes measurable as of June 30, 1999 and delinquent property taxes, whose availability is indeterminate and are intended to finance fiscal 2000 operations, have been recorded as deferred revenues, except for that portion which is available from the County Auditor as advanced at June 30. This amount is recognized as revenue.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 1999 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Columbiana County Budget Commission for tax rate determination.
3. Prior to April 1st, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 1999.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the Board prior to June 30, 1999.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 18 provides a reconciliation of the budgetary and GAAP basis of accounting for governmental fund types and Note 15 provides disclosure of the encumbrances outstanding for enterprise funds at fiscal year end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including Proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) and "Investments" on the combined balance sheet.

During 1999, investments were limited to certificates of deposit and repurchase agreements. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the Building capital projects fund during fiscal year 1999 amounted to \$137,912 which includes \$128,018 assigned from other District funds.

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

An analysis of the Treasurer's investment account at year end is provided in Note 4.

F. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

| <u>Asset</u> | <u>Life (years)</u> |
|--------------------------------------|---------------------|
| Furniture, fixtures and equipment | 5-20 |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as non-operating revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
School Bus Purchase

Non-Reimbursable Grants

Special Revenue Funds

Title VI
Education Management Information Systems (EMIS)
Title I
Title VI-B
Drug-Free Grant
Eisenhower Grant
Disadvantaged Pupil Program
Preschool Grant
Textbook/Instructional Materials Subsidy
Teacher Development

Capital Projects Funds

School Net
Technology Equity
Power-Up Grant
IVDL Grant
Emergency Repairs

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Reimbursable Grants

General Fund

Driver Education Reimbursement

Enterprise Fund

Nutrition Cluster Grant Programs

Government Donated Commodities

Grants and entitlements amounted to approximately 64% of the District's operating revenue during the 1999 fiscal year.

H. Contributed Capital

Contributed capital reported in the enterprise funds represent resources provided from other funds, other governments, and private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end. See Note 9 for the change in contributed capital during fiscal year 1999.

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal interest. Generally accepted accounting principles require the allocation of the debt liability among the general and the general long-term obligations account group, with principal and interest payments on matured general long-term debt being reported in the debt service fund. To comply with the GAAP reporting requirements, the District's debt retirement fund has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, tax revenue unavailable for appropriation, debt service, budget stabilization, prepayments, advances and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

L. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had no short-term interfund loans receivable and payable at June 30, 1999.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had long-term advances receivable and payable at June 30, 1999.

An analysis of interfund transactions is presented in Note 5.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At period-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. A fund balance reserve has also been established. See Note 20 for detail of statutory reserves.

O. Estimates

The preparation of GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

P. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

Q. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Reclassification

A fund reclassification is required for the Emergency Repairs Fund to properly reflect its intended purpose. This fund should be reported as a capital projects fund rather than as a special revenue fund. The effect of this fund reclassification on fund balances as previously reported at June 30, 1998 is as follows:

| | <u>Special Revenue</u> | <u>Capital Projects</u> |
|--|----------------------------|-----------------------------|
| Fund balance as previously reported | \$ 75,724 | \$(5,359,472) |
| Fund reclassification | <u>123,540</u> | <u>(123,540)</u> |
| Restated fund balance at June 30, 1998 | <u>\$199,264</u> | <u>\$(5,483,012)</u> |

B. Deficit Fund Balances

Fund balance at June 30, 1999 included the following individual fund deficits:

| | <u>Deficit Balance</u> |
|--------------------------------|------------------------|
| <u>Special Revenue Funds</u> | |
| Disadvantaged Pupil Impact Aid | \$ (2,185) |
| <u>Capital Projects Funds</u> | |
| Building | (4,707,576) |
| Emergency Repairs | (33,744) |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end. The deficit fund balance in the Disadvantaged Pupil Impact Aid special revenue fund is caused by accruing wage, benefit and retirement obligations in accordance with GAAP. This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

The deficit fund balance in the Building capital projects fund is caused by the recognition of a bond anticipation note as a fund liability rather than as an "other financing source". This deficit will be eliminated as resources are provided for the retirement of this note.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

The deficit balance in the Emergency Repairs capital projects fund is caused by rewarding a liability for accounts payable that were due at June 30. This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

C. Agency Funds

The following is an accrual for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

LIABILITIES

| | |
|------------------|-------|
| Accounts payable | \$457 |
|------------------|-------|

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories:

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

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

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

Cash with fiscal agent: The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 1999, was \$172,220.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end the carrying amount of the District's deposits was \$1,588,689, including \$1,250,000 in nonnegotiable certificates of deposit, and the bank balance was \$1,595,751, including \$1,250,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$292,564 was covered by federal deposit insurance; and
2. \$1,296,125 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Investments: Investments are categorized 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 securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities 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, but not in the District's name.

| | Category 3 | Reported Amount | Fair Value |
|-----------------------|---------------|--------------------|---------------|
| Repurchase Agreements | \$1,242,685 | \$1,242,685 | \$1,242,685 |

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---------------------------------------|---------------|
| GASB Statement No. 9 | \$ 2,003,594 | \$ 1,000,000 |
| Cash with fiscal agent | (172,220) | --- |
| Investments of the cash management pool: | | |
| Repurchase agreement | (1,242,685) | 1,242,685 |
| Certificate of deposit | \$ 1,000,000 | \$(1,000,000) |
| GASB Statement No. 3 | \$ 1,588,689 | \$ 1,242,685 |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summary of the District's long-term advances at June 30, 1999:

| | <u>Advances To Other Funds</u> | <u>Advances From Other Funds</u> |
|------------------------------|------------------------------------|--------------------------------------|
| General Fund | \$ --- | \$5,432 |
| <u>Special Revenue Funds</u> | | |
| Title VI-B | 400 | --- |
| Title I | 2,843 | --- |
| Debt Service Fund | 1,653 | --- |
| Agency Fund | <u>536</u> | <u>---</u> |
| Total | <u>\$5,432</u> | <u>\$5,432</u> |

B. The following is a summarized breakdown of the District's operating transfers for fiscal year 1999:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------------------|---------------------|----------------------|
| General Fund | \$ --- | \$38,566 |
| <u>Special Revenue Funds</u> | | |
| Public School Support | 744 | --- |
| Preschool Grants for the Handicapped | 2,721 | --- |
| Title VI-B | 3,989 | --- |
| Title I | 2,833 | --- |
| District Managed Student Activity | 3,033 | --- |
| <u>Capital Projects Fund</u> | | |
| Building | --- | 3,777 |
| <u>Enterprise Funds</u> | | |
| Food Service | <u>29,023</u> | <u>---</u> |
| Total | <u>\$42,343</u> | <u>\$42,343</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies which is assessed 50% of market and railroads which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 1998 taxes were collected was \$78,768,670. Agricultural/residential and public utility/minerals real estate represented \$62,373,330 or 79.2% of this total, commercial & industrial real estate represented \$8,215,660 or 10.4% of this total and general tangible property represented \$8,179,680 or 10.4% of this total. The voted general tax rate at the fiscal year ended June 30, 1999 was \$25.10 per \$1,000.00 of assessed valuation for operations and \$7.30 per \$1000.00 of assessed valuation for debt service.

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.

The Columbiana County Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The Columbiana County Auditor periodically remits to the District its portion of the taxes collected with final settlement in March and September. Such collections are available to pay current period liabilities.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 6 - PROPERTY TAXES - (Continued)

The Columbiana County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The Columbiana County Auditor periodically remits to the District its portion of the taxes collected with final settlement in February and August. Such collections are available to pay current period liabilities.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 1999. 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 fiscal 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 as an advance and recorded as revenue at June 30, 1999, was \$54,540 in the general fund, \$19,353 in the debt service fund, and \$14,074 in capital projects funds.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 1999, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999 consisted of taxes, accrued interest, accounts (fees for user charged services and rent) and intergovernmental state and federal revenues (to the extent they are intended to finance the current fiscal year). Intergovernmental receivables are reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of receivables follows:

| | <u>Amounts</u> |
|-----------------------------------|----------------|
| <u>General Fund</u> | |
| Taxes - current and delinquent | \$1,944,442 |
| <u>Special Revenue Funds</u> | |
| Due from other governments | 64,286 |
| <u>Debt Service Fund</u> | |
| Taxes - current and delinquent | 702,016 |
| <u>Capital Projects Funds</u> | |
| Taxes - current and delinquent | 491,392 |

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

| | <u>Balance</u> <u>July 1, 1998</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>June 30, 1999</u> |
|----------------------------|---------------------------------------|-------------------|-------------------|--|
| Land/ improvements | \$ 338,731 | \$ 20,661 | \$ 0 | \$ 359,392 |
| Buildings/ improvements | 10,153,918 | 392,535 | (40,628) | 10,505,825 |
| Furniture/ equipment | 1,473,262 | 110,796 | (2,064) | 1,581,994 |
| Vehicles | 519,598 | 88,900 | 0 | 608,498 |
| CIP | <u>45,663</u> | <u>0</u> | <u>(45,663)</u> | <u>0</u> |
| Total | <u>\$ 12,531,172</u> | <u>\$ 612,892</u> | <u>\$(88,355)</u> | <u>\$13,055,709</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 8 - FIXED ASSETS - (Continued)

A summary of the proprietary fixed assets at June 30, 1999 follows:

| | |
|--------------------------------|------------------|
| Furniture and equipment | \$126,541 |
| Less: accumulated depreciation | <u>(80,189)</u> |
| Net fixed assets | <u>\$ 46,352</u> |

NOTE 9 - CONTRIBUTED CAPITAL

The following is a reconciliation of the change in the contributed capital for the Food Service fund:

| | |
|--|----------------|
| Contributed capital at July 1, 1998 | \$ 0 |
| Contributed capital acquired during year | <u>4,071</u> |
| Contributed capital at June 30, 1999 | <u>\$4,071</u> |

NOTE 10 - CAPITAL LEASES

The District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by the FASB Board Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as general fund expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$54,476. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 1999 totaled \$9,230 in the general fund.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 10 - CAPITAL LEASES (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999.

| <u>Fiscal year Ending</u> | <u>Payment</u> |
|---|-----------------|
| 2000 | \$12,992 |
| 2001 | 12,991 |
| 2002 | 12,992 |
| 2003 | <u>9,744</u> |
| Total | 48,719 |
| Less: amount representing interest | <u>(6,750)</u> |
| Present value of minimum lease payments | <u>\$41,969</u> |

NOTE 11 - LONG-TERM OBLIGATIONS

The District issued voted general obligation bonds in 1984 to provide funds for the acquisition and construction of facilities and equipment in the amount of \$1,300,000. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. The bonds were issued for a twenty-year period with a final maturity date of December 1, 2004.

Additionally, the District has issued energy conservation notes to provide for energy improvements to various buildings. The primary source of repayment of these notes is through energy savings as a result of the improvements. The notes bear an interest rate of 4.85% and mature April 1, 2002.

Unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund.

The District has issued bonds in the amount of \$350,000 for the purpose of providing funds to pay a portion of the final judgement rendered against the District in Case No. 99-CV-140. The Bonds shall bear interest at the rate of 4.4%, payable on June 1 and December 1 of each year, commencing December 1, 1999, until the principal amount has been paid.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

A. During the year ended June 30, 1999, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

| | <u>Balance</u> <u>July 1, 1998</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>June 30, 1999</u> |
|---------------------------------|---------------------------------------|--------------------------|---------------------------|--|
| Compensated Absences | \$ 323,225 | \$ 124,268 | \$ (24,660) | \$ 422,833 |
| Pension obligation payable | 65,722 | 64,354 | (65,722) | 64,354 |
| General obligation bond payable | 455,000 | 0 | (65,000) | 390,000 |
| Energy conservation notes | 441,966 | 0 | (44,846) | 397,120 |
| Final judgement bond payable | 0 | 350,000 | 0 | 350,000 |
| Capital leases | <u>51,199</u> | <u>0</u> | <u>(9,230)</u> | <u>41,969</u> |
| Total | <u>\$1,337,112</u> | <u>\$ 538,622</u> | <u>\$(209,458)</u> | <u>\$ 1,666,276</u> |

B. The following is a description of the District's future annual debt service requirements to maturity for general obligation debt:

| <u>Fiscal</u> <u>Year Ending</u> | <u>Principal on</u> <u>General Obligation</u> <u>Bonds/Notes</u> | <u>Interest on</u> <u>General Obligation</u> <u>Bonds/Notes</u> | <u>Total</u> |
|-------------------------------------|--|---|---------------------------|
| 2000 | \$ 181,121 | \$ 71,425 | \$ 252,546 |
| 2001 | 185,533 | 59,944 | 245,477 |
| 2002 | 426,768 | 45,308 | 472,076 |
| 2003 | 137,748 | 24,214 | 161,962 |
| 2004 | 140,950 | 13,945 | 154,895 |
| 2005 | <u>65,000</u> | <u>3,534</u> | <u>68,534</u> |
| Total | <u>\$1,137,120</u> | <u>\$218,370</u> | <u>\$1,355,490</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 1999 are a voted debt margin of \$6,941,249 and an unvoted debt margin of \$78,769.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators 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 up to a maximum of 245 days for all personnel. Upon retirement, payment is made for one-fourth of 144 accrued, but unused sick leave days plus 10% of all sick days accrued, but unused, above and beyond the first 144 days up to the maximum accumulation (245 days) for all personnel.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 13 - NOTE PAYABLE

A bond anticipation note was issued to provide funds for the acquisition and construction of facilities and equipment. This note is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The source of payment is derived from a current 6.5 million bonded debt tax levy.

As of June 30, 1999, the District had the following bond anticipation note payable:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Balance Outstanding 07/01/98</u> | <u>Issued in FY 99</u> | <u>Retired in FY 99</u> | <u>Balance Outstanding 6/30/99</u> |
|----------------|-----------------------|-------------------|----------------------|-------------------------------------|------------------------|-------------------------|------------------------------------|
| Facilities | 3.49% | 12/08/98 | 12/08/99 | \$ 0 | \$4,600,000 | \$ --- | \$4,600,000 |
| Facilities | 4.2% | 01/06/98 | 01/06/99 | <u>5,000,000</u> | <u>---</u> | <u>(5,000,000)</u> | <u>0</u> |
| Total | | | | <u>\$5,000,000</u> | <u>\$4,600,000</u> | <u>\$(5,000,000)</u> | <u>\$4,600,000</u> |

The note activity has been reported in the Building capital projects fund, the fund which had received the proceeds.

NOTE 14 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 1999, the District contracted with Nationwide Insurance for property and fleet insurance and liability insurance. Inland marine coverage was held by American States Insurance as follows:

| | |
|---|--------------|
| Building and contents - replacement cost (\$500 deductible) | \$22,861,300 |
| Boiler and machinery (\$500 deductible) | 5,000,000 |
| Crime insurance (\$-0- deductible) | 5,000 |
| Automobile liability (\$-0- deductible) | 1,000,000 |
| Uninsured motorists (\$-0- deductible) | 1,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 14 - RISK MANAGEMENT - (Continued)

B. 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 \$92,614 reported in the internal service fund at June 30, 1999, is based on an estimate provided by the third party administrators and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Balance Beginning of Year</u> | <u>Current Year Claims</u> | <u>Claim Payments</u> | <u>Balance at End of Year</u> |
|--------------------|--|--------------------------------|---------------------------|-----------------------------------|
| 1999 | \$ 105,152 | \$ 777,476 | \$ (790,014) | \$ 92,614 |
| 1998 | 134,546 | 494,339 | (523,730) | 105,152 |

3. Worker's Compensation

For fiscal year 1999, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the group rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the group. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the group. Participation in the Plan is limited to school districts that can meet the Plan criteria. The firm of CompManagement provides administrative, cost control and actuarial services to the group.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 14 - RISK MANAGEMENT - (Continued)

on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 15 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and adult education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 1999.

| | <u>Food Service</u> | <u>Adult Education</u> | <u>Total</u> |
|--|---------------------|------------------------|--------------|
| Operating revenue | \$ 260,195 | \$3,424 | \$ 263,619 |
| Depreciation | 5,741 | 0 | 5,741 |
| Operating income (loss) | (272,007) | (1,235) | (273,242) |
| Operating grants | 211,305 | 0 | 211,305 |
| Net income (loss) | 2,145 | 1,235 | 3,380 |
| Net working capital | 57,873 | 3,682 | 61,555 |
| Total assets | 105,990 | 3,692 | 109,682 |
| Total liabilities | 86,450 | 10 | 86,460 |
| Total equity | 19,540 | 3,682 | 23,222 |
| Contributed capital | 4,071 | 0 | 4,071 |
| Encumbrances outstanding at June 30 | 51,924 | 0 | 51,924 |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 16 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board (SERB). SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes general purpose financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered salary; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$154,184, \$131,296, and \$131,904, respectively. Of the contribution requirement, 51 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$75,372, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to 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 general purpose financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 16 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered salary; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$544,397, \$495,822, and \$458,904, respectively. Of the contribution requirement, 83 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$92,272, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations

NOTE 17 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1998, the Board allocated employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1998, this allocation was increased to 8 percent. For the District, this amount equaled \$311,084 during fiscal 1999.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998 (the latest information available). For the year ended June 30, 1998 (the latest information available), net health care costs paid by STRS were \$219.224 million and STRS had 91,999 eligible benefit recipients.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 17 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent 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 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111.9 million and the target level was \$139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$86,515 during the 1999 fiscal year.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING (Continued)

- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing
Sources Over (Under) Expenditures and Other
Financing Uses**

| | Governmental Fund Types | | | |
|--|-------------------------|----------------------------|-------------------------|-----------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
| Budget basis | \$ 233,357 | \$ (17,268) | \$ (96,137) | \$ (392,473) |
| Net adjustment for revenue accruals | 41,321 | (35,133) | (542,724) | 613,378 |
| Net adjustment for expenditure accruals | (77,641) | 8,309 | 5,140,632 | 717,551 |
| Net adjustment for other financing sources (uses) | (170,043) | 50,046 | (4,600,278) | (3,499) |
| Encumbrances (budget basis) | <u>228,915</u> | <u>99,367</u> | <u>0</u> | <u>244,564</u> |
| GAAP basis | <u>\$ 255,909</u> | <u>\$105,321</u> | <u>\$ (98,507)</u> | <u>\$1,179,521</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 19 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 1999.

B. Litigation

During fiscal 1999, the District settled a lawsuit filed by one of its contractors alleging breach of contract. Payment of approximately \$800,000 was made during the fiscal year. The District is not party to any litigation at June 30, 1999.

C. State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received \$5,373,847 of total school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 19 - CONTINGENCIES - (Continued)

As of the date of these financial statements, the District is unable to determine that effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTE 20 - 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, 1999, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|--|--------------------|--------------------------------|---------------------------------|
| Set-aside cash balance as of June 30, 1998 | \$ 0 | \$ 0 | \$ 55,525 |
| Current year set-aside requirement | 123,140 | 123,140 | 61,570 |
| Current year offsets | (24,721) | (438,091) | 0 |
| Qualifying disbursements | <u>(129,832)</u> | <u>(134,964)</u> | <u>0</u> |
| Total | <u>\$ (31,413)</u> | <u>\$ (449,915)</u> | <u>\$ 117,095</u> |
| Cash balance carried forward to FY 2000 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 117,095</u> |

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 1999 follows:

| | |
|--|------------------|
| Amount restricted for budget stabilization | <u>\$117,095</u> |
| Total restricted assets | <u>\$117,095</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 21 - YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations as early as fiscal year 1999.

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting.

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform School Payroll System software for its payroll and employee benefits and the State of Ohio Education Management and Information System (EMIS) for its education statistics reporting. The State is responsible for remediating these systems.

The Ohio Department of Education, Division of Information Management Services, State Software Development Team has addressed the status of the OECN State Software in regards to the compliance requirements for the Year 2000. Their assessment is as follows:

- The payroll processing software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1997 release of USPS V4.0.
- The accounting software supported with the OECN State Software is compliant with the Year 2000 beginning with the June 1998 release of USAS V6.1.
- The education management information system software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1998 release of EMIS V1.7.

Columbiana County collects property taxes for distribution to the District. Columbiana County is responsible for remediating its tax collection system.

The State of Ohio distributes a substantial sum of money to the District in the form of basic state aid "school foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 21 - YEAR 2000 ISSUE - (Continued)

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready.

December 14, 1999

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

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

We have audited the financial statements of East Palestine City School District (the "School District") as of and for the year ended June 30, 1999, and have issued our report thereon dated December 14, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated December 14, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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 structure 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the School District in a separate letter dated December 14, 1999.

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

Rea & Associates, Inc.

Columbus
New Philadelphia
Millersburg
Coshocton
Cambridge
Marietta
Medina
Lima

December 14, 1999

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

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

Compliance

We have audited the compliance of East Palestine City School District (the "School 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, 1999. The District's major federal program is identified in the "summary of auditor's results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, East Palestine City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Columbus
New Philadelphia
Millersburg
Coshocton
Cambridge
Marietta
Medina
Lima

East Palestine City School District
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
December 14, 1999
Page 2

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of East Palestine City School District as of and for the year ended June 30, 1999, and have issued our report thereon dated December 14, 1999. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Rea & Associates, Inc.

EAST PALESTINE CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | FED. CFDA # | PASS-THROUGH GRANTOR'S NUMBER | RECEIPTS | NON CASH RECEIPTS | DISBURSE- MENTS | NON CASH RECEIPTS |
|--|-------------------|--|--------------------------------------|----------------------|--------------------------------------|----------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| Passed through Ohio Department of Education | | | | | | |
| Title I, Part A, of IASA Improving America's Schools Act (IASA) | 84.010 | 043927-C1-S1-98C 043927-C1-S1-98 043927-C1-S1-99 | \$ 28,267 104,231 192,860 | \$ 0 | \$ 31,079 58,122 184,969 | \$ 0 |
| Total Title I | | | <u>325,358</u> | <u>0</u> | <u>274,170</u> | <u>0</u> |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States | 84.027 | 043927-6B-SF-98 043927-6B-SF-99 | 6,472 63,428 | | 13,025 69,900 | |
| Special Education - Preschool Grants | 84.173 | 043927-PG-S1-98 043927-PG-S1-99 | 0 8,112 | | 5,004 8,112 | |
| Total Special Education Cluster | | | <u>78,012</u> | <u>0</u> | <u>96,041</u> | <u>0</u> |
| Eisenhower Professional Development Grant | 84.281 | 043927-MS-S1-97 043927-MS-S1-98 043927-MS-S1-99 | 0 0 9,285 | | 2,881 6,730 0 | |
| Total Eisenhower Professional Development Grant | | | <u>9,285</u> | <u>0</u> | <u>9,611</u> | <u>0</u> |
| Title VI, Innovative Education Program Strategy Act | 84.298 | 043927-C2-S1-95 043927-C2-S1-98 043927-C2-S1-99 | 0 0 6,021 | | 690 5,494 4,978 | |
| Total Title VI | | | <u>6,021</u> | <u>0</u> | <u>11,162</u> | <u>0</u> |
| Safe, Drug-Free Schools & Communities Act Grant Program | 84.186 | 043927-DR-S1-99 | <u>2,530</u> | <u>0</u> | <u>49</u> | <u>0</u> |
| Total U. S. Department of Education | | | <u>421,206</u> | <u>0</u> | <u>391,033</u> | <u>0</u> |
| U.S. Department of Labor | | | | | | |
| Passed through Ohio Department of Education | | | | | | |
| Continuous Improvement Development Grant | 17.249 | 043927-STW-99 | 5,000 | 0 | 0 | 0 |
| Federal Communications Commission | | | | | | |
| Passed through Telecommunications Servers | | | | | | |
| Telecommunications act Grant Fund (E-Rate) | | (NOTE C) | 39,000 | 0 | 39,000 | 0 |
| U. S. Office of Library Services | | | | | | |
| Passed through State of Ohio Library Services | | | | | | |
| LSTA Automation Project #II | 45.310 | 10-E-2-98 | 14,800 | 0 | 14,800 | 0 |
| U. S. DEPARTMENT OF AGRICULTURE | | | | | | |
| Passed through Ohio Department of Education: | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution Program | 10.550 | 043927 FY99 | | 35,357 | | 35,357 |
| School Breakfast Program | 10.553 | 043927-05-PU-98 043927-05-PU-99 | 3,932 31,493 | | 3,932 31,493 | |
| Total School Breakfast Program | | | <u>35,425</u> | <u>0</u> | <u>35,425</u> | <u>0</u> |
| National School Lunch Program | 10.555 | 043927-03-PU-98 043927-03-PU-99 043927-04-PU-98 043927-04-PU-99 | 3,040 21,496 15,047 110,595 | | 3,040 21,496 15,047 110,595 | |
| Total National School Lunch Program | | | <u>150,178</u> | <u>0</u> | <u>150,178</u> | <u>0</u> |
| Summer Food Service Program | 10.559 | 043927-23-ML-98 043927-24-AD-98 | 9,784 1,023 | | 9,784 1,023 | |
| Total Summer Food Service Program | | | <u>10,807</u> | <u>0</u> | <u>10,807</u> | <u>0</u> |
| Total U. S. Department of Agriculture | | | <u>196,410</u> | <u>35,357</u> | <u>196,410</u> | <u>35,357</u> |
| Total Federal Financial Assistance | | | <u>\$ 676,416</u> | <u>\$ 35,357</u> | <u>\$ 641,243</u> | <u>\$ 35,357</u> |

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1999

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School 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, 1999, the School 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.

NOTE C: TELECOMMUNICATIONS ACT GRANT FUND

The Telecommunications Act Grant Fund does not currently have a CFDA#. The District does not receive cash. The grant is paid directly to the telecommunications service providers in the name of the District.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 1999

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): | Title I CFDA # 84.010 |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs | Type A: >\$300,000 Type B: All others |
| (d) (1) (ix) | Low Risk Auditee? | Yes |

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

| | |
|------|--|
| NONE | |
|------|--|

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

| | |
|------|--|
| NONE | |
|------|--|



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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.

By: Susan Babbitt
Clerk of the Bureau

Date: JAN 18 2000