

**EAST PALESTINE CITY
SCHOOL DISTRICT**



**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2002**



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the East Palestine City School District, Columbiana County, prepared by Rea & Associates, Inc., for the audit period July 1, 2001 through June 30, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 22, 2003

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 2002

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 23, 2002

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, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of East Palestine City School District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated December 23, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

EAST PALESTINE CITY SCHOOL DISTRICT

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 557,257	\$ 378,754	\$ 417,899	\$ 7,213,639
Restricted Cash and Cash Equivalents	131,594	0	0	0
Cash and Cash Equivalents				
In Segregated Accounts	0	153,172	0	0
With Fiscal Agent	0	0	0	0
Investments	0	0	0	0
Receivables:				
Taxes	2,286,229	0	779,646	459,893
Interfund	23,000	0	0	0
Intergovernmental Receivable	0	98,823	0	9,409,307
Advances to Other Funds	33,667	0	0	0
Inventory	0	0	0	0
Fixed Assets (Net)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	\$ 3,031,747	\$ 630,749	\$ 1,197,545	\$ 17,082,839
Liabilities				
Accounts Payable	\$ 79,042	\$ 9,732	\$ 0	\$ 5,833
Contracts Payable	0	0	0	54,340
Accrued Wages and Benefits	766,831	75,515	0	0
Compensated Absences Payable	56,346	0	0	0
Interfund Payable	0	23,000	0	0
Intergovernmental Payable	170,650	3,058	0	0
Deferred Revenue	2,087,267	94,837	711,796	9,829,177
Due to Students	0	0	0	0
Accrued Interest Payable	0	0	0	83,353
Advances from Other Funds	0	0	33,667	0
Notes Payable	0	0	0	4,687,000
Claims Payable	0	0	0	0
Energy Conservation Notes Payable	0	0	0	0
Final Judgement Bonds Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	3,160,136	206,142	745,463	14,659,703
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings: Unreserved	0	0	0	0
Fund Balance:				
Reserved for Endowment	0	0	0	0
Reserved for Encumbrances	130,749	47,444	0	27,542
Reserved for Advances	33,667	0	0	0
Reserved for Textbooks	131,594	0	0	0
Reserved for Taxes Unavailable for Appropriation	198,962	0	67,850	40,023
Unreserved: Undesignated	(623,361)	377,163	384,232	2,355,571
Total Fund Equity and Other Credits	(128,389)	424,607	452,082	2,423,136
Total Liabilities, Fund Equity and Other Credits	\$ 3,031,747	\$ 630,749	\$ 1,197,545	\$ 17,082,839

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 4,614	\$ 94,927	\$ 0	\$ 0	\$ 0	\$ 8,667,090
0	0	0	0	0	131,594
17,849	0	69,604	0	0	240,625
0	373,201	0	0	0	373,201
0	0	56,380	0	0	56,380
0	0	0	0	0	3,525,768
0	0	0	0	0	23,000
0	0	0	0	0	9,508,130
0	0	0	0	0	33,667
4,924	0	0	0	0	4,924
28,911	0	0	14,579,870	0	14,608,781
0	0	0	0	452,082	452,082
0	0	0	0	195,000	195,000
0	0	0	0	482,458	482,458
\$ 56,298	\$ 468,128	\$ 125,984	\$ 14,579,870	\$ 1,129,540	\$ 38,302,700
\$ 0	\$ 0	\$ 2,261	\$ 0	\$ 0	\$ 96,868
0	0	0	0	0	54,340
0	0	0	0	0	842,346
0	0	0	0	473,144	529,490
0	0	0	0	0	23,000
0	0	0	0	70,211	243,919
4,082	0	0	0	0	12,727,159
0	0	29,726	0	0	29,726
0	0	0	0	0	83,353
0	0	0	0	0	33,667
0	0	0	0	0	4,687,000
0	116,885	0	0	0	116,885
0	0	0	0	242,487	242,487
0	0	0	0	148,698	148,698
0	0	0	0	195,000	195,000
4,082	116,885	31,987	0	1,129,540	20,053,938
0	0	0	14,579,870	0	14,579,870
4,071	0	0	0	0	4,071
48,145	351,243	0	0	0	399,388
0	0	75,330	0	0	75,330
0	0	0	0	0	205,735
0	0	0	0	0	33,667
0	0	0	0	0	131,594
0	0	0	0	0	306,835
0	0	18,667	0	0	2,512,272
52,216	351,243	93,997	14,579,870	0	18,248,762
\$ 56,298	\$ 468,128	\$ 125,984	\$ 14,579,870	\$ 1,129,540	\$ 38,302,700

EAST PALESTINE CITY SCHOOL DISTRICT

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

All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2002

	Governmental Fund Type			
	General	Special Revenue	Debt Service	Capital Projects
<u>Revenues</u>				
Taxes	\$ 1,628,623	\$ 42,533	\$ 450,417	\$ 979,738
Intergovernmental	6,661,560	749,311	87,326	126,384
Investment Income	0	1,489	0	144,871
Tuition and Fees	25,385	0	0	0
Extracurricular Activities	0	200,384	0	0
Miscellaneous	19,884	9,741	0	0
Total Revenues	8,335,452	1,003,458	537,743	1,250,993
<u>Expenditures</u>				
Instruction:				
Regular	4,208,370	50,444	0	1,240
Special	391,802	391,123	0	0
Vocational	132,877	0	0	0
Support Services:				
Pupils	555,539	115,666	0	0
Instructional Staff	441,295	185,971	0	19,672
Board of Education	31,502	0	0	0
Administration	650,470	40,302	0	33
Fiscal	179,688	4,542	21,266	8,350
Business	409,210	0	0	0
Operation and Maintenance of Plant	800,746	47,975	0	0
Pupil Transportation	303,881	11,447	0	0
Central	1,671	0	0	0
Operation of Non-Instructional Services	0	0	0	0
Extracurricular Activities	142,828	189,825	0	0
Capital Outlay	0	0	0	341,138
Debt Service:				
Principal Retirement	0	0	429,619	0
Interest and Fiscal Charges	0	0	43,027	141,946
Total Expenditures	8,249,879	1,037,295	493,912	512,379
Excess of Revenues Over (Under) Expenditures	85,573	(33,837)	43,831	738,614
<u>Other Financing Sources (Uses)</u>				
Proceeds of Bonds	250,000	0	0	0
Total Other Financing Sources (Uses)	250,000	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	335,573	(33,837)	43,831	738,614
Fund Balances (Deficit) at Beginning of Year	(463,962)	458,444	408,251	1,684,522
Fund Balances (Deficit) at End of Year	\$ (128,389)	\$ 424,607	\$ 452,082	\$ 2,423,136

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

Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)
\$ 0	\$ 3,101,311
0	7,624,581
491	146,851
0	25,385
0	200,384
300	29,925
<u>791</u>	<u>11,128,437</u>
0	4,260,054
0	782,925
0	132,877
0	671,205
0	646,938
0	31,502
0	690,805
0	213,846
0	409,210
0	848,721
0	315,328
0	1,671
937	937
0	332,653
0	341,138
0	429,619
0	184,973
<u>937</u>	<u>10,294,402</u>
(146)	834,035
<u>0</u>	<u>250,000</u>
<u>0</u>	<u>250,000</u>
(146)	1,084,035
<u>16,100</u>	<u>2,103,355</u>
<u>\$ 15,954</u>	<u>\$ 3,187,390</u>

EAST PALESTINE CITY SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual - (Non-GAAP Budgetary Basis)*

All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2002

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,628,799	\$ 1,504,196	\$ (124,603)
Intergovernmental	6,567,109	6,661,560	94,451
Investment Income	0	0	0
Tuition and Fees	25,000	25,403	403
Extracurricular Activities	0	0	0
Miscellaneous	10,400	22,400	12,000
Total Revenues	8,231,308	8,213,559	(17,749)
Expenditures			
Instruction			
Regular	4,307,323	4,246,085	61,238
Special	394,846	388,301	6,545
Vocational	131,127	130,656	471
Support Services			
Pupils	564,759	561,602	3,157
Instructional Staff	455,533	438,078	17,455
Board of Education	32,254	31,583	671
Administration	697,548	668,337	29,211
Fiscal	183,651	178,312	5,339
Business	454,700	453,788	912
Operation and Maintenance of Plant	899,150	841,122	58,028
Pupil Transportation	326,456	321,097	5,359
Central	1,671	1,671	0
Operation of Non-Instructional Services	500	0	500
Extracurricular Activities	146,240	143,078	3,162
Capital Outlay	0	0	0
Debt Service			
Principal Retirement	1,002	0	1,002
Interest and Fiscal Charges	1,023	0	1,023
Total Expenditures	8,597,783	8,403,710	194,073
Excess of Revenues Over (Under) Expenditures	(366,475)	(190,151)	176,324
Other Financing Sources (Uses)			
Proceeds from Sale of Bonds	250,000	250,000	0
Proceeds from Sale of Notes	0	0	0
Other Financing Uses	(2,500)	(8,890)	(6,390)
Advances In	0	0	0
Advances Out	0	(23,000)	(23,000)
Transfers In	0	0	0
Total Other Financing Sources (Uses)	247,500	218,110	(29,390)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(118,975)	27,959	146,934
Fund Balances at Beginning of Year	630,156	630,156	0
Prior Year Encumbrances Appropriated	(148,137)	(148,137)	0
Fund Balances at End of Year	\$ 363,044	\$ 509,978	\$ 146,934

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

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 40,332	\$ 42,533	\$ 2,201	\$ 404,429	\$ 411,138	\$ 6,709
861,790	745,325	(116,465)	92,762	87,326	(5,436)
1,500	1,489	(11)	0	0	0
0	0	0	0	0	0
200,750	200,434	(316)	0	0	0
5,150	9,741	4,591	0	0	0
<u>1,109,522</u>	<u>999,522</u>	<u>(110,000)</u>	<u>497,191</u>	<u>498,464</u>	<u>1,273</u>
51,371	51,870	(499)	0	0	0
404,114	394,904	9,210	0	0	0
0	0	0	0	0	0
122,779	113,513	9,266	0	0	0
217,874	215,416	2,458	0	0	0
0	0	0	0	0	0
43,111	40,771	2,340	0	0	0
3,877	4,545	(668)	23,005	21,266	1,739
2,407	0	2,407	0	0	0
53,571	48,059	5,512	0	0	0
15,000	11,447	3,553	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
230,115	217,745	12,370	0	0	0
3,100	3,100	0	0	0	0
0	0	0	426,744	429,619	(2,875)
0	0	0	45,902	43,027	2,875
<u>1,147,319</u>	<u>1,101,370</u>	<u>45,949</u>	<u>495,651</u>	<u>493,912</u>	<u>1,739</u>
<u>(37,797)</u>	<u>(101,848)</u>	<u>(64,051)</u>	<u>1,540</u>	<u>4,552</u>	<u>3,012</u>
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	23,000	23,000	0	0	0
0	0	0	0	0	0
21,889	0	(21,889)	0	0	0
<u>21,889</u>	<u>23,000</u>	<u>1,111</u>	<u>0</u>	<u>0</u>	<u>0</u>
(15,908)	(78,848)	(62,940)	1,540	4,552	3,012
529,228	529,228	0	413,348	413,348	0
31,190	31,190	0	0	0	0
<u>\$ 544,510</u>	<u>\$ 481,570</u>	<u>\$ (62,940)</u>	<u>\$ 414,888</u>	<u>\$ 417,900</u>	<u>\$ 3,012</u>

EAST PALESTINE CITY SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures and

Changes in Fund Balances - Budget and Actual - Budgetary Basis

All Governmental Fund Types and Expendable Trust Funds (Continued)

For the Year Ended June 30, 2002

	Capital Project Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Taxes	\$ 953,039	\$ 956,565	\$ 3,526
Intergovernmental	74,269	126,384	52,115
Investment Income	205,000	144,871	(60,129)
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Miscellaneous	0	0	0
Total Revenues	1,232,308	1,227,820	(4,488)
<u>Expenditures</u>			
Instruction			
Regular	1,240	1,240	0
Special	0	0	0
Vocational	0	0	0
Support Services			
Pupils	0	0	0
Instructional Staff	39,932	39,932	0
Board of Education	0	0	0
Administration	10,100	33	10,067
Fiscal	12,000	8,500	3,500
Business	0	0	0
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	0	0	0
Central	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	599,393	384,692	214,701
Debt Service			
Principal Retirement	5,050,000	5,050,000	0
Interest and Fiscal Charges	227,932	227,932	0
Total Expenditures	5,940,597	5,712,329	228,268
Excess of Revenues Over (Under) Expenditures	(4,708,289)	(4,484,509)	223,780
<u>Other Financing Sources (Uses)</u>			
Proceeds from Sale of Bonds	0	0	0
Proceeds from Sale of Notes	4,687,000	4,687,000	0
Other Financing Uses	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Transfers In	0	0	0
Total Other Financing Sources (Uses)	4,687,000	4,687,000	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(21,289)	202,491	223,780
Fund Balances at Beginning of Year	6,947,663	6,947,663	0
Prior Year Encumbrances Appropriated	27,610	27,610	0
Fund Balances at End of Year	\$ 6,953,984	\$ 7,177,764	\$ 223,780

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

Expendable Trust Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 3,026,599	\$ 2,914,432	\$ (112,167)
0	0	0	7,595,930	7,620,595	24,665
350	491	141	206,850	146,851	(59,999)
0	0	0	25,000	25,403	403
0	0	0	200,750	200,434	(316)
425	300	(125)	15,975	32,441	16,466
775	791	16	11,071,104	10,940,156	(130,948)
0	0	0	4,359,934	4,299,195	60,739
0	0	0	798,960	783,205	15,755
0	0	0	131,127	130,656	471
0	0	0	687,538	675,115	12,423
0	0	0	713,339	693,426	19,913
0	0	0	32,254	31,583	671
0	0	0	750,759	709,141	41,618
0	0	0	222,533	212,623	9,910
0	0	0	457,107	453,788	3,319
0	0	0	952,721	889,181	63,540
0	0	0	341,456	332,544	8,912
0	0	0	1,671	1,671	0
700	937	(237)	1,200	937	263
0	0	0	376,355	360,823	15,532
0	0	0	602,493	387,792	214,701
0	0	0	5,477,746	5,479,619	(1,873)
0	0	0	274,857	270,959	3,898
700	937	(237)	16,182,050	15,712,258	469,792
75	(146)	(221)	(5,110,946)	(4,772,102)	338,844
0	0	0	250,000	250,000	0
0	0	0	4,687,000	4,687,000	0
0	0	0	(2,500)	(8,890)	(6,390)
0	0	0	0	23,000	23,000
0	0	0	0	(23,000)	(23,000)
0	0	0	21,889	0	(21,889)
0	0	0	4,956,389	4,928,110	(28,279)
75	(146)	(221)	(154,557)	156,008	310,565
16,100	16,100	0	8,536,495	8,536,495	0
0	0	0	(89,337)	(89,337)	0
\$ 16,175	\$ 15,954	\$ (221)	\$ 8,292,601	\$ 8,603,166	\$ 310,565

EAST PALESTINE CITY SCHOOL DISTRICT

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

All Proprietary Fund Types and Nonexpendable Trust Fund

For the Year Ended June 30, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
<u>Operating Revenues</u>				
Tuition	\$ 1,200	\$ 0	\$ 0	\$ 1,200
Sales	244,821	0	0	244,821
Charges for Services	0	1,064,476	0	1,064,476
Investment Income	0	0	2,713	2,713
Other Operating Revenues	0	0	2,000	2,000
Total Operating Revenues	<u>246,021</u>	<u>1,064,476</u>	<u>4,713</u>	<u>1,315,210</u>
<u>Operating Expenses</u>				
Salaries	1,000	0	0	1,000
Fringe Benefits	0	18,810	0	18,810
Purchased Services	386,001	71,807	0	457,808
Materials and Supplies	34,644	0	0	34,644
Depreciation	5,813	0	0	5,813
Claims Expenses	0	937,247	0	937,247
Other Operating Expenses	515	0	3,577	4,092
Total Operating Expenses	<u>427,973</u>	<u>1,027,864</u>	<u>3,577</u>	<u>1,459,414</u>
Operating Income (Loss)	<u>(181,952)</u>	<u>36,612</u>	<u>1,136</u>	<u>(144,204)</u>
<u>Non-Operating Revenues</u>				
Operating Grants	181,898	0	0	181,898
Donated Commodities	33,187	0	0	33,187
Investment Income	188	4,297	0	4,485
Total Non-Operating Revenues	<u>215,273</u>	<u>4,297</u>	<u>0</u>	<u>219,570</u>
Net Income	33,321	40,909	1,136	75,366
Retained Earnings/Fund Balances at Beginning of Year	<u>14,824</u>	<u>310,334</u>	<u>76,907</u>	<u>402,065</u>
Retained Earnings/Fund Balances at End of Year	48,145	351,243	78,043	477,431
Contributed Capital at Beginning of Year	4,071	0	0	4,071
Contributions During the Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contributed Capital at End of Year	<u>4,071</u>	<u>0</u>	<u>0</u>	<u>4,071</u>
Total Fund Equity at End of Year	<u>\$ 52,216</u>	<u>\$ 351,243</u>	<u>\$ 78,043</u>	<u>\$ 481,502</u>

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

EAST PALESTINE CITY SCHOOL DISTRICT

Combined Statement of Cash Flows

All Proprietary Fund Types and Nonexpendable Trust Fund

For the Year Ended June 30, 2002

	Proprietary Fund Types		Fiduciary	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:				
<u>Cash Flows From Operating Activities</u>				
Cash Received from Customers	\$ 246,021	\$ 1,064,476	\$ 0	\$ 1,310,497
Investment Income	0	0	2,713	2,713
Cash Received from Other Sources	0	0	2,000	2,000
Cash Paid for Goods and Services	(454,809)	(71,807)	(3,577)	(530,193)
Cash Paid to Employees	(1,011)	(18,810)	0	(19,821)
Cash Paid for Claims	0	(1,008,647)	0	(1,008,647)
Net Cash Provided by (Used For) Operating Activities	(209,799)	(34,788)	1,136	(243,451)
<u>Cash Flows From Non-Capital Financing Activities</u>				
Grants	181,898	0	0	181,898
Net Cash Provided by Non- Capital Financing Activities	181,898	0	0	181,898
<u>Cash Flows From Investing Activities</u>				
Interest Income	188	4,297	0	4,485
Sale of Investments	0	0	0	0
Net Cash Provided by Investing Activities	188	4,297	0	4,485
Net Increase (Decrease) in Cash and Cash Equivalents	(27,713)	(30,491)	1,136	(57,068)
Cash and Cash Equivalents at Beginning of Year	50,176	498,619	27,341	576,136
Cash and Cash Equivalents at End of Year	\$ 22,463	\$ 468,128	\$ 28,477	\$ 519,068
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities				
Operating Income (Loss)	\$ (181,952)	\$ 36,612	\$ 1,136	\$ (144,204)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:				
Depreciation	5,813	0	0	5,813
Non-cash Donated Commodities	33,187	0	0	33,187
(Increase) in Inventory	(280)	0	0	(280)
(Decrease) in Accounts Payable	(67,009)	0	0	(67,009)
(Decrease) in Intergovernmental Payable	(11)	0	0	(11)
Increase in Deferred Revenue	453	0	0	453
(Decrease) in Claims Payable	0	(71,400)	0	(71,400)
Total Adjustments	(27,847)	(71,400)	0	(99,247)
Net Cash Provided by (Used For) Operating Activities	\$ (209,799)	\$ (34,788)	\$ 1,136	\$ (243,451)
Reconciliation of Cash and Cash Equivalents to the Balance Sheet				
Trust and Agency			\$ 69,604	
Less: Expendable Trust Funds			9,140	
Less: Agency Funds			31,987	
Nonexpendable Trust Fund			\$ 28,477	

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

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

The East Palestine City School District (District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of October 1, 2001, was 1,520. The District employs 107 certificated and 43 non-certificated employees.

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

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

The District is involved with Area Cooperative Computerized Educational Service System (ACCESS), and the Columbiana County Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 21. The East Palestine Public Library is a related organization of the District, which is presented in Note 17 to the general purpose financial statements.

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types and the expendable trust funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used the pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which are levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

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

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

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

Proprietary Fund Types

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the nonexpendable trust fund. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unused donated commodities are reported as deferred revenue. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the District has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations unless they contradict/conflict with Governmental Accounting Standards Board pronouncements. Proprietary fund types include the following fund types:

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

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

Fiduciary Fund Types

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

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

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

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

Account Groups

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

B. Budgetary Process

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

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

C. Cash, Cash Equivalents, and Investments

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

During fiscal year 2002, investments were limited to Certificates of Deposit and a repurchase agreement. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earning. Interest cash receipts credited to the Building Capital Projects Fund during fiscal year 2002 amounted to \$37,183, which includes \$28,611 assigned from other District funds.

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Receivables

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

E. Estimates

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

F. Advances

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

G. Inventory

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

H. Fixed Assets and Depreciation

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

I. Accrued Liabilities and Long-Term Obligations

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

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

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

J. Bond Premiums and Discounts

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Transactions

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

L. Compensated Absences

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

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Contributed Capital

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

N. Fund Balance Reserves

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

O. Intergovernmental Revenues

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

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

Entitlements

General Fund:

State Foundation Program
State Property Tax Relief
School Bus Purchase Allowance

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Reimbursable Grants

Special Revenue Funds:

- Education Management Information Systems
- Eisenhower Grant
- Title I
- Title VI
- School Net Professional Development
- Disadvantaged Pupil Impact Act
- Data Communications Subsidy
- Title VI-R

Capital Projects Fund:

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

Reimbursable Grants

General Fund:

- Telecommunications Act Grant

Enterprise Funds:

- National School Lunch Program
- National School Breakfast Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 35% of the District's operating revenue during the 2002 fiscal year.

P. Total Columns on General Purpose Financial Statements

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 3: BUDGETARY PROCESS

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official Certificate of Estimated Resources which states projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any unencumbered balances from the preceding year. The Certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (NonGAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund" do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 3: BUDGETARY PROCESS (Continued)

Lapsing of Appropriations

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

Encumbrances

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

Budgetary Basis of Accounting

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 3: BUDGETARY PROCESS (Continued)

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

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Expendable Trust Fund
Budgetary Basis	\$ 27,959	\$ (78,848)	\$ 4,552	\$ 202,491	\$ (146)
Encumbrances	178,873	50,357	0	35,875	0
Revenue accruals	121,893	(19,064)	39,279	(4,663,827)	0
Expenditure accruals	6,848	13,718	0	5,164,075	0
GAAP Basis	<u>\$ 335,573</u>	<u>\$ (33,837)</u>	<u>\$ 43,831</u>	<u>\$ 738,614</u>	<u>\$ (146)</u>

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

At June 30, 2002, the General Fund had a deficit fund balance of \$(128,389), which was created by the application of generally accepted accounting principles.

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Deposits

At year-end, the carrying amount of the District's deposits was \$3,373,704 and the bank balance was \$3,588,696. Of the bank balance:

1. \$344,995 was covered by federal depository insurance.
2. \$3,243,701 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Funds Held by Fiscal Agent

The District participates in the Columbiana County Insurance Consortium for employee benefits. The amount held at fiscal year end for the Employee Benefit Self-Insurance Fund was \$373,201. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments

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

	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreements	<u>\$ 5,721,985</u>	<u>\$ 5,721,985</u>

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 9,412,510	\$ 56,380
Certificate of Deposit with maturity of greater than three months	56,380	(56,380)
Repurchase Agreement	<u>(5,721,985)</u>	<u>5,721,985</u>
GASB Statement No. 3	<u>\$ 3,746,905</u>	<u>\$ 5,721,985</u>

NOTE 6: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar year 2002 for real and public utility property taxes represent collections of calendar year 2001 taxes. Property tax payments received during calendar year 2002 for tangible personal property (other than public utility property) is for calendar year 2002 taxes.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 6: PROPERTY TAXES (Continued)

2002 real property taxes are levied after April 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001 on the values as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001		2002	
	Second-Half Collections Amount	Percent	First-Half Collections Amount	Percent
Agricultural/Residential and other real estate	\$ 70,049,150	74%	\$ 79,944,270	75%
Commercial Industrial	10,710,910	11%	11,052,140	10%
Tangible Personal Property	<u>13,969,820</u>	<u>15%</u>	<u>15,417,420</u>	<u>15%</u>
Total Assessed Value	<u>\$ 94,729,880</u>	<u>100%</u>	<u>\$ 106,413,830</u>	<u>100%</u>
Tax rate per \$1,000 of assessed value		<u>\$ 33.60</u>		<u>\$ 33.60</u>

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 6: PROPERTY TAXES (Continued)

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002 are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including East Palestine City School District. The County Auditor periodically remits to the District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the District as an advance at June 30, 2002 was \$306,835.

NOTE 7: RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (customer services and student fees), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Special Revenue Funds:

Schoolnet	\$	3,450
Safe and Drug Free Grant		536
Title II		975
Title VI		5,693
Title VI-B		44,072
Title VI-R		39,255
Drug Free Schools		<u>4,842</u>
Total Special Revenue Funds		98,823

Capital Projects Funds:

OSFC Construction Project		<u>9,409,307</u>
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Total Intergovernmental Receivables \$ 9,508,130

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 8: FIXED ASSETS AND DEPRECIATION

A. General Fixed Assets Account Group

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

	Balance July 1, 2001	Additions	Disposals	Balance June 30, 2002
Land and improvements	\$ 835,206	\$ 0	\$ 0	\$ 835,206
Buildings and improvements	10,505,825	0	0	10,505,825
Furniture and equipment	1,853,601	150,856	0	2,004,457
Vehicles	777,132	0	0	777,132
Construction in progress	378,750	78,500	0	457,250
Totals	<u>\$ 14,350,514</u>	<u>\$ 229,356</u>	<u>\$ 0</u>	<u>\$ 14,579,870</u>

B. Proprietary Fund Type Fixed Assets

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

<u>Enterprise</u>	<u>June 30, 2002</u>
Equipment	\$ 126,541
Less: Accumulated Depreciation	<u>(97,630)</u>
Net Fixed Assets	<u>\$ 28,911</u>

NOTE 9: NOTE PAYABLE

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

As of June 30, 2002, the District had the following bond anticipation notes payable:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 06/30/01</u>	<u>Issued in FY02</u>	<u>Retired in FY02</u>	<u>Balance Outstanding 06/30/02</u>
Facilities	4.59%	10/10/00	10/04/01	\$ 5,050,000	\$ 0	\$ (5,050,000)	\$ 0
Facilities	2.38%	10/04/01	10/03/02	0	4,687,000	0	4,687,000
Total				<u>\$ 5,050,000</u>	<u>\$ 4,687,000</u>	<u>\$ (5,050,000)</u>	<u>\$ 4,687,000</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 10: GENERAL LONG-TERM OBLIGATIONS

The changes in the District's general long-term obligations during the fiscal year 2002 were as follows:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
Energy Conservation Notes 4.85% interest rate, maturing April 2002	\$ 287,424	\$ 0	\$ (287,424)	\$ 0
Final Judgment Bonds, 4.40% interest rate, maturing June 2004	218,380	0	(69,682)	148,698
General Obligation Bonds, 10.875% interest rate, maturing December 2004	260,000	0	(65,000)	195,000
Energy Conservation Bonds, 4.21% interest rate, maturing April 2007	0	250,000	(7,513)	242,487
Compensated absences payable	466,781	6,363	0	473,144
Intergovernmental payable	<u>63,130</u>	<u>70,211</u>	<u>(63,130)</u>	<u>70,211</u>
Total general long-term obligations	<u>\$ 1,295,715</u>	<u>\$ 326,574</u>	<u>\$ (492,749)</u>	<u>\$ 1,129,540</u>

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

The District's overall legal debt margin was \$8,991,060 at June 30, 2002.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 10: GENERAL LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2002 are as follows:

	General Obligation Bonds	Energy Conservation Bonds	Final Judgment Bonds	Total
Year Ending June 30, 2003	\$ 82,672	\$ 55,534	\$ 79,291	\$ 217,497
2004	75,603	55,534	79,291	210,428
2005	68,534	55,534	0	124,068
2006	0	55,535	0	55,535
2007	0	46,279	0	46,279
	<u>\$ 226,809</u>	<u>\$ 268,416</u>	<u>\$ 158,582</u>	<u>\$ 653,807</u>

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$649,356, \$590,592 and \$554,208, respectively; 82.7% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. \$112,052, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$166,128, \$147,618 and \$146,250, respectively; 46.2% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. \$89,388, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, two members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 12: POSTEMPLOYMENT BENEFITS

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2002, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$199,350 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 9.80% of covered payroll, an increase from 8.45% for fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$126,909 during the 2002 fiscal year.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 13: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

NOTE 14: NON-CASH TRANSACTIONS

The District receives food commodities for its food service obligations. The revenue recognized in grant income from the non-cash commodities was \$33,187.

NOTE 15: INTERFUND ACTIVITY

As of June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 23,000	\$ 0	\$ 33,667	\$ 33,667
Debt Service Fund	0	0	0	0
Special Revenue	0	23,000	0	0
Total - All Funds	<u>\$ 23,000</u>	<u>\$ 23,000</u>	<u>\$ 33,667</u>	<u>\$ 33,667</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 16: 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, 2002, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Acquisition</u>	<u>BWC Refund</u>	<u>Totals</u>
Set-aside cash balance as of June 30, 2001	\$ 80,549	\$ 0	\$ 0	\$ 80,549
Current year set-aside requirement	187,090	187,090	0	374,180
Current year offsets	0	(1,757,811)	0	(1,757,811)
Current year qualifying disbursements	<u>(136,045)</u>	<u>0</u>	<u>0</u>	<u>(136,045)</u>
 Total	 <u>\$ 131,594</u>	 <u>\$ (1,570,721)</u>	 <u>\$ 0</u>	 <u>\$ (1,439,127)</u>
 Balance carried forward to FY 2003	 <u>\$ 131,594</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	
 Cash balance carried forward to FY 2003	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	

Effective April 10, 2002, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used. The District does not have a BWC Refund set aside for the current year.

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

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for textbooks	<u>\$ 131,594</u>
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EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 17: RELATED ORGANIZATIONS

The East Palestine Public Library (the "Library") is a related organization to the District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library's operation, nor does the Library represent a potential financial benefit or burden to the District. The District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the District during the fiscal year 2002.

NOTE 18: SEGMENT INFORMATION

The District maintains enterprise funds to account for the operation of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2002:

	Food Service	Adult Education	Total Enterprise Funds
Operating Revenues	\$ 244,821	\$ 1,200	\$ 246,021
Operating Expenses, less Depreciation	420,451	1,709	422,160
Depreciation Expense	5,813	0	5,813
Operating Loss	(181,443)	(509)	(181,952)
Nonoperating Grants	181,898	0	181,898
Donated Commodities	33,187	0	33,187
Investment Income	188	0	188
Net Income (Loss)	33,830	(509)	33,321
Net Working Capital	18,691	4,614	23,305
Total Assets	51,684	4,614	56,298
Total Equity	47,602	4,614	52,216

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 19: CONTRACTUAL COMMITMENTS

As of June 30, 2002, the District had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 6/30/2002</u>
<u>Ohio School Facilities Commission Project</u>			
Ricciuti Balog & Partners - Architects	\$ 700,000	\$ 457,250	\$ 242,750
Innerscope Technical Services - Asbestos removal	36,500	0	36,500
Eslich Wrecking - Demolition	<u>54,000</u>	<u>0</u>	<u>54,000</u>
Totals	<u>\$ 790,500</u>	<u>\$ 457,250</u>	<u>\$ 333,250</u>

NOTE 20: RISK MANAGEMENT

A. General Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2002, the District has property and liability insurance coverage as follows:

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 20: RISK MANAGEMENT (Continued)

B. Fidelity Bond

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

C. Workers' Compensation

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

D. Employee Health Insurance

Medical/surgical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of seven school districts within the county, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$116,885 reported in the internal service fund at June 30, 2002 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in fund's claims liability for the fiscal years 2002 and 2001 are as follows:

	Balance at Beginning <u>of Year</u>	<u>Claims</u>	<u>Payments</u>	Balance at End of Year
2002	<u>\$ 188,285</u>	<u>\$ 937,247</u>	<u>\$ 1,008,647</u>	<u>\$ 116,885</u>
2001	<u>\$ 111,924</u>	<u>\$ 763,243</u>	<u>\$ 686,882</u>	<u>\$ 188,285</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 21: JOINTLY GOVERNED ORGANIZATIONS

A. Area Cooperative Computerized Education Service System (ACCESS)

ACCESS is a jointly governed organization comprised of 26 public school districts, 2 educational service centers, 20 non-public schools, and 2 special education regional resource centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The seven member board of governors consists of the two superintendents and one treasurer from each county (Columbiana and Mahoning). The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for ACCESS. The assembly exercises total control over operating of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing to: Mahoning County Educational Service Center, Treasurer's Office, 2801 Market Street, Room 202, Youngstown, Ohio 44507-1693. The continued existence of ACCESS is not dependent upon the District's continued participation and no measurable equity interest exists. The District paid \$41,427 for services provided during fiscal year 2002.

B. Columbiana County Career Center

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

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

NOTE 22: CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2002.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 22: CONTINGENCIES (Continued)

B. Litigation

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

NOTE 23: STATE SCHOOL FUNDING DECISION

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2002, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 23, 2002

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

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

We have audited the financial statements of East Palestine City School District (the "District") as of and for the year ended June 30, 2002, and have issued our report thereon dated December 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 23, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control 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 that we have reported to management of the district in a separate letter dated December 23, 2002.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 23, 2002

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

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

Compliance

We have audited the compliance of East Palestine City School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal program is identified in the "summary of auditor's results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, East Palestine City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of East Palestine City School District as of and for the year ended June 30, 2002, and have issued our report thereon dated December 23, 2002. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Rea & Associates, Inc.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
Passed through Ohio Department of Education						
Title 1, Part A	84.010	C1S1 - 1993-1994	\$ 0		\$ 36	
		C1S1 - 2000	0		228	
		C1S1 - 2000 - C	0		9,714	
		C1S1 - 2001	3,174		46,758	
Elementary and Secondary Education Act		C1S1 - 2002	<u>316,196</u>		<u>280,969</u>	
Total Title 1			319,370		337,705	
Special Education Cluster:						
Special Education Grants to States	84.027	6BSF - 2001 - P	35,328		41,532	
		6BSF - 2002 - P	63,948		70,645	
Special Education - Preschool Grants	84.173	PGS1 - 2002 - P	<u>8,746</u>		<u>8,746</u>	
Total Special Education Cluster			108,022		120,923	
Title VI Ed Improve & Consol						
	84.298	C2S1 - 2001	1,000		1,000	
		C2S1 - 2002	<u>2,325</u>		<u>4,491</u>	
Total Title VI			3,325		5,491	
Title VI R Class Reduction						
	84.340	CRS1 - 2000	0		15,170	
		CRS1 - 2002	<u>15,266</u>		<u>24,828</u>	
Total Title VI R Class Reduction			15,266		39,998	
Eisenhower Professional Development Grant						
	84.281	MSS1 - 1999	0		25	
		MSS1 - 2000	0		1,583	
		MSS1 - 2001	0		5,539	
		MSS1 - 2002	<u>8,777</u>		<u>3,024</u>	
Total Eisenhower Professional Development Grant			8,777		10,171	
Safe, Drug-Free Schools & Communities Act Grant						
	84.186	DRS1 - 2001	4,579		6,543	
		DRS1 - 2002	<u>1,366</u>		<u>0</u>	
Total Safe, Drug-Free Schools			5,945		6,543	
Technology Literacy Challenge Fund Grant						
	84.318	TF51 - 2001	100,000		100,000	
		TF52 - 2001	75,000		75,000	
		TF53 - 2001	<u>25,000</u>		<u>0</u>	
Total Technology Literacy Challenge Fund Grant			200,000		175,000	
School Renovation IDEA & Technology						
	84.352A	ATS1 - 2002	<u>7,965</u>		<u>7,070</u>	
Total U. S. Department of Education			668,670		702,901	
U. S. DEPARTMENT OF AGRICULTURE						
Passed through Ohio Department of Education:						
Nutrition Cluster:						
Food Distribution Program	10.550	FY01		\$ 33,187		\$ 33,187
School Breakfast Program	10.553	05PU - 2001	3,175		3,175	
		05PU - 2002	<u>20,506</u>		<u>20,506</u>	
Total School Breakfast Program			23,681		23,681	
National School Lunch Program	10.555	LLP4 - 2001	18,236		18,236	
		LLP4 - 2002	<u>127,674</u>		<u>127,674</u>	
Total National School Lunch Program			145,910		145,910	
Total US Department of Agriculture - Nutrition Cluster			<u>169,591</u>	<u>33,187</u>	<u>169,591</u>	<u>33,187</u>
Total Federal Financial Assistance			<u>\$ 838,261</u>	<u>\$ 33,187</u>	<u>\$ 872,492</u>	<u>\$ 33,187</u>

See accompanying notes to schedule of expenditures of federal awards.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2002, the District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2002

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 Technology Literacy Challenge Fund Grant	CFDA # 84.010 CFDA # 84.318
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2002

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
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NONE	
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS	
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NONE	
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EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2002

4. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000 – 001	<u>Estimated Revenue and Appropriations</u> Estimated revenues and appropriations approved by the County and Board of Education were incorrectly posted to the District’s accounting system.	Yes	



**Auditor of State
Betty Montgomery**

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EAST PALESTINE CITY SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 4, 2003**