

**East Palestine City School
District**

Audited Financial Statements

June 30, 2003



**Auditor of State
Betty Montgomery**

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, 2002 through June 30, 2003. 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

April 1, 2004

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 2003

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**EAST PALESTINE CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

JUNE 30, 2003

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 17, 2004

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the East Palestine City School District (the "School District"), Columbiana County, Ohio as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these basic 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Palestine City School District, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison of the General Fund thereafter for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As stated in Note 3, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 34, "Basic Financial Statements and Management's Discussion and Analysis, No. 37, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financials."

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2004 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 the report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Rea & Associates, Inc.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the East Palestine City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ❑ General Revenues accounted for \$9.8 million in revenue or 88% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1.4 million or 12% of total revenues of \$11.2 million.
- ❑ Total program expenses were \$11.1 million in governmental activities.
- ❑ Net assets of governmental activities increased \$384,935, which represents a 1.7% increase from 2002.
- ❑ Outstanding note and bonded debt decreased from \$5,273,185 to \$4,845,228 through the payment (\$427,957) of note and bond principal.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole (Continued)

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

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the debt service fund and the classroom facilities capital projects fund.

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

(Table 1)
Governmental Activities
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$ 18,340,826	\$ 22,532,392
Capital Assets	14,511,243	10,002,747
Total Assets	32,852,069	32,535,139
Liabilities		
Long-Term Liabilities	5,423,349	5,802,674
Other Liabilities	4,732,263	4,410,943
Total Liabilities	10,155,612	10,213,617
Net Assets		
Invested in Capital Assets Net of Debt	9,666,015	4,729,563
Restricted	13,155,900	17,548,729
Unrestricted (Deficit)	(115,458)	43,230
Total Net Assets	\$ 22,706,457	\$ 22,321,522

Total governmental assets increased by \$795,058. An increase of approximately \$4.5 million in total capital assets reflects additional purchases exceeding depreciation. Total governmental liabilities increased by \$58,880. This increase was primarily the result of increased deferred revenue.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole (Continued)

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities
Change in Net Assets

	Governmental Activities
	2003
<i>Revenues</i>	
<i>Program Revenues:</i>	
Charges for Services	\$ 639,915
Operating Grants	725,547
<i>General Revenue:</i>	
Property Taxes	2,966,580
Grants and Entitlements	6,678,200
Other	144,755
<i>Total Revenues</i>	11,154,997
 <i>Program Expenses</i>	
Instruction	5,369,028
Support Services	4,404,542
Operation of Non-Instructional	486,500
Extracurricular Activities	389,245
Interest and Fiscal Charges	120,747
<i>Total Expenses</i>	10,770,062
Increase (Decrease) in Net Assets	\$ 384,935

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$16.2 million and expenditures of \$15.8 million. Comparisons to 2002 have not been made since they are not available.

(Table 3)
Governmental Activities
Cost of Services

	Total Cost of Service	Net Cost of Service
Instruction	\$ 5,369,029	\$ 4,873,721
Support Services:		
Pupil and Instructional Staff	1,242,464	1,086,622
Board of Education, Administration, Fiscal and Business	1,761,604	1,704,765
Operation and Maintenance of Plant	962,003	924,001
Pupil Transportation	435,649	425,647
Central	2,822	2,822
Operation of Non-Instructional	486,500	73,527
Extracurricular Activities	389,245	212,421
Capital Outlay	0	(19,672)
Interest and Fiscal Charges	120,747	120,747
Total Expenses	\$ 10,770,063	\$ 9,404,601

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

The dependence upon tax revenues (26%) for governmental activities is apparent. The community, as a whole, is a primary support for East Palestine City School District students. However, 58% of the School District's revenues are general operating grants.

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the School District did modify its general fund budget several times, none significant. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$8.6 million, under the original budget estimates of \$10.8 million. Of this \$2.1 million shortfall, most was attributable to less State funding than anticipated.

Final appropriations of \$8.9 million, were \$200,000 higher than the \$8 million in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$14.5 million invested in land, land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared with 2002.

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

	Governmental Activities	
	2003	2002
Land	\$ 475,814	\$ 475,814
Land Improvements	6,691	13,077
Buildings and Building Improvements	13,470,581	8,516,354
Furniture and Equipment	234,074	160,477
Vehicles	324,083	379,776
Construction in Progress	0	457,250
Totals	\$ 14,511,243	\$ 10,002,748

The \$4.5 million increase in capital assets was attributable to additional purchases exceeding depreciation expense.

East Palestine City School District
Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2003, this amounted to \$203,435 for each set aside. The School District had qualifying disbursements or offsets exceeding these requirements for capital improvements. The School District has budgeted to meet these requirements.

Debt

At June 30, 2003, the School District had \$4,845,228 in bonds outstanding with \$4,632,146 due within one year. During fiscal year 2003, \$177,957 of general obligation bonds were retired. The School District reissued \$4,437,000 of bond anticipation notes during fiscal year 2003. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2003	Governmental Activities 2002
Final Judgement Bonds	\$ 81,952	\$ 148,698
General Obligation Bonds	130,000	195,000
Energy Conservation Bonds	196,276	242,487
Bond Anticipation Notes	4,437,000	4,687,000
Totals	\$ 4,845,228	\$ 5,273,185

In 1988, the School District passed a bond issue providing \$4,250,000 for renovations to the four buildings in the School District. In 1997, the School District passed a bond issue providing \$5,625,000 for the construction of a new Middle School, classroom additions, and the refurbishing of the former Middle School (now known as the Intermediate School). In 1999, State Facility Bond issue passed for \$1,354,000 with the State providing \$13,691,923.

Current Issues

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

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

East Palestine City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Current Issues (Continued)

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26% of revenues for governmental activities for the East Palestine City School District in fiscal year 2003.

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

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

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

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

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

Contacting the School District's Financial Management

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

East Palestine City School District

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 9,339,865
Equity in Pooled Cash and Cash Equivalents - Restricted	127,050
Cash and Cash Equivalents:	
In Segregated Accounts	187,623
With Fiscal Agents	683,374
Investments	56,380
Receivables:	
Taxes	3,456,371
Intergovernmental	4,495,446
Materials and Supplies	4,716
Nondepreciable Capital Assets	475,814
Depreciable Capital Assets (Net)	<u>14,035,429</u>
<i>Total Assets</i>	<u>32,862,069</u>
Liabilities	
Accounts Payable	166,609
Contracts Payable	394,299
Accrued Wages and Benefits	836,649
Intergovernmental Payable	239,682
Deferred Revenue	2,947,062
Accrued Interest Payable	59,160
Claims Payable	88,802
Long Term Liabilities:	
Due Within One Year	4,705,139
Due Within More Than One Year	<u>718,210</u>
<i>Total Liabilities</i>	<u>10,155,612</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	9,666,015
Restricted for:	
Capital Projects	12,066,128
Debt Service	736,728
Other Purposes	353,044
Unrestricted	<u>(115,458)</u>
<i>Total Net Assets</i>	<u>\$ 22,706,457</u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 4,389,263	\$ 49,493	\$ 44,366	\$ (4,295,404)
Special	857,161	186,398	215,051	(455,712)
Vocational	122,604	0	0	(122,604)
Support services:				
Pupils	708,510	56,036	64,651	(587,823)
Instructional staff	533,954	16,323	18,832	(498,799)
Board of education	30,065	0	0	(30,065)
Administration	1,297,458	26,040	30,043	(1,241,375)
Fiscal	216,635	351	405	(215,879)
Business	217,446	0	0	(217,446)
Operation and maintenance of plant	962,003	17,645	20,357	(924,001)
Pupil transportation	435,649	4,644	5,358	(425,647)
Central	2,822	0	0	(2,822)
Operation of non-instructional services	486,500	191,749	221,224	(73,527)
Extracurricular activities	389,245	82,102	94,722	(212,421)
Capital outlay	0	9,134	10,538	19,672
Debt service:				
Interest and fiscal charges	120,747	0	0	(120,747)
<i>Total Governmental Activities</i>	<u>\$ 10,770,063</u>	<u>\$ 639,915</u>	<u>\$ 725,547</u>	<u>\$ (9,404,601)</u>

General Revenues

Property Taxes Levied for:

General Purposes	1,874,968
Debt Service	721,787
Capital Outlay	369,825
Grants and Entitlements not Restricted to Specific Programs	6,678,200
Investment Earnings	92,012
Other Revenue	56,821
Loss on Disposal of Capital Assets	(4,078)
Total General Revenues	<u>9,789,536</u>
Change in Net Assets	384,935
Net Assets Beginning of Year - Restated	<u>22,321,522</u>
Net Assets End of Year	<u>\$ 22,706,457</u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District

Balance Sheet

Governmental Funds

June 30, 2003

	General	Bond Retirement	Classroom Facilities Capital Projects
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 353,287	\$ 707,763	\$ 5,961,303
Equity in Pooled Cash and Cash Equivalents - Restricted	127,050	0	0
Cash and Cash Equivalents:			
In Segregated Accounts	0	0	0
Investments			
In Segregated Accounts	0	0	0
Receivables:			
Taxes	2,146,678	826,524	0
Interfund	25,757	0	0
Intergovernmental	0	0	4,459,307
Materials and Supplies	0	0	0
Advances to Other Funds	33,667	0	0
<i>Total Assets</i>	<u>\$ 2,686,439</u>	<u>\$ 1,534,287</u>	<u>\$ 10,420,610</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 93,933	\$ 0	\$ 52,629
Contracts Payable	0	0	394,299
Accrued Wages and Benefits	775,290	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	160,594	0	0
Advances from Other Funds	0	33,667	0
Deferred Revenue	2,062,610	794,156	4,459,307
Accrued Interest Payable	0	59,160	0
<i>Total Liabilities</i>	3,092,427	886,983	4,906,235
Fund Balances			
Reserved for Encumbrances	90,501	0	296,846
Reserved for Inventory	0	0	0
Reserved for Tax Revenue Unavailable for Appropriation	84,068	32,368	0
Reserved for Textbook/Instructional Materials	127,050	0	0
Reserved for Advances	33,667	0	0
Unreserved Reported in:			
General Fund	(741,274)	0	0
Special Revenue Funds	0	0	0
Debt Service Fund	0	614,936	0
Capital Projects Funds	0	0	5,217,529
<i>Total Fund Balances</i>	<u>(405,988)</u>	<u>647,304</u>	<u>5,514,375</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,686,439</u>	<u>\$ 1,534,287</u>	<u>\$ 10,420,610</u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 2,283,383	\$ 9,305,736
0	127,050
187,623	187,623
56,380	56,380
483,169	3,456,371
0	25,757
36,139	4,495,446
4,716	4,716
0	33,667
<u>\$ 3,051,410</u>	<u>\$ 17,692,747</u>
\$ 20,047	\$ 166,609
0	394,299
61,359	836,649
25,757	25,757
1,513	162,107
0	33,667
464,248	7,780,321
0	59,160
<u>572,924</u>	<u>9,458,569</u>
49,531	436,878
4,716	4,716
18,921	135,357
0	127,050
0	33,667
0	(741,274)
528,027	528,027
0	614,936
<u>1,877,292</u>	<u>7,094,821</u>
<u>2,478,486</u>	<u>8,234,178</u>
<u>\$ 3,051,410</u>	<u>\$ 17,692,747</u>

East Palestine City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets Governmental Activities
June 30, 2003

Total Governmental Fund Balances		\$	8,234,178
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			14,511,243
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Grants	\$	4,459,308	
Delinquent Property Taxes		373,952	4,833,260
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			 628,701
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General Obligation Bonds		(408,229)	
Bond Anticipation Notes		(4,437,000)	
Compensated Absences		(578,121)	
Intergovernmental Payable		(77,575)	(5,500,925)
 Net Assets of Governmental Activities			 \$ <u>22,706,457</u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

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East Palestine City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Bond Retirement	Classroom Facilities Capital Projects
Revenues:			
Taxes	\$ 1,789,627	\$ 699,628	\$ 0
Intergovernmental	6,521,457	92,350	4,950,000
Investment income	0	0	75,827
Tuition and fees	11,038	0	0
Extracurricular activities	0	0	0
Charges for services	0	0	0
Miscellaneous	23,125	0	0
<i>Total Revenues</i>	8,345,247	791,978	5,025,827
Expenditures:			
Current:			
Instruction:			
Regular	4,093,276	0	0
Special	430,177	0	0
Vocational	127,431	0	0
Support services:			
Pupils	593,362	0	0
Instructional staff	477,707	0	0
Board of education	29,877	0	0
Administration	907,295	0	309,263
Fiscal	184,925	20,256	150
Business	217,446	0	0
Operation and maintenance of plant	930,547	0	8,999
Pupil transportation	382,024	0	0
Central	2,822	0	0
Operation of non-instructional services	250	0	0
Extracurricular activities	164,980	0	0
Capital outlay	0	0	4,695,362
Debt service:			
Principal retirement	46,211	4,818,745	0
Interest and fiscal charges	9,345	111,402	0
<i>Total Expenditures</i>	8,597,675	4,950,403	5,013,774
<i>Excess of Revenues Over (Under) Expenditures</i>	(252,428)	(4,158,425)	12,053
Other Financing Sources (Uses):			
Proceeds of notes	0	4,437,000	0
Operating transfers in	0	0	0
Operating transfers out	(25,171)	0	0
<i>Total Financing Sources and (Uses)</i>	(25,171)	4,437,000	0
<i>Net Change in Fund Balance</i>	(277,599)	278,575	12,053
<i>Fund balance at beginning of year - Restated</i>	(128,389)	368,729	5,502,322
<i>Increase in reserve for inventory</i>	0	0	0
<i>Fund balance at end of year</i>	\$ (405,988)	\$ 647,304	\$ 5,514,375

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 407,562	\$ 2,896,817
884,777	12,448,584
16,185	92,012
0	11,038
201,379	201,379
427,498	427,498
33,696	56,821
1,971,098	16,134,150
94,731	4,188,007
456,862	887,039
0	127,431
137,915	731,277
57,033	534,740
0	29,877
64,147	1,280,705
8,752	214,083
0	217,446
46,208	985,754
11,440	393,464
0	2,822
477,075	477,325
202,251	367,231
199,160	4,894,522
0	4,864,956
0	120,747
1,755,574	20,317,426
215,523	(4,183,277)
0	4,437,000
25,171	25,171
0	(25,171)
25,171	4,437,000
240,694	253,724
2,233,076	7,975,738
4,716	4,716
\$ 2,478,486	\$ 8,234,178

East Palestine City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	253,724
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Amounts reported for governmental activities in the statement of activities are different because:

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

Fixed Asset Additions	4,894,522	
Current Year Depreciation	<u>(381,948)</u>	4,512,574

Net effect of transactions involving sale of capital assets are not reflected in the funds		(4,078)
--	--	---------

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

Grants	(5,044,837)	
Delinquent Property Taxes	<u>69,763</u>	(4,975,074)

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

Bond Principal		427,956
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Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(104,977)	
Pension Obligation	(7,364)	
Change in Inventory	<u>4,716</u>	(107,625)

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

		<u>277,458</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>384,935</u></u>
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The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual (Non-GAAP Basis)*
 General Fund
 For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 2,088,982	\$ 2,021,559	\$ 1,904,521	\$ (117,038)
Intergovernmental	8,641,688	6,606,388	6,521,457	(84,931)
Tuition and Fees	14,627	11,000	11,038	38
Miscellaneous	30,643	25,300	23,125	(2,175)
<i>Total Revenues</i>	<u>10,775,940</u>	<u>8,664,247</u>	<u>8,460,141</u>	<u>(204,106)</u>
Expenditures:				
Current				
Instruction	4,764,467	4,843,076	4,763,182	79,894
Support Services				
Pupils	616,732	627,823	610,528	17,295
Instructional Staff	478,395	517,420	473,566	43,854
Board of Education	30,202	34,588	29,888	4,700
Administration	913,339	911,486	915,719	(4,233)
Fiscal	191,119	207,802	189,209	18,593
Business	175,220	139,643	181,583	(41,940)
Operation and Maintenance of Plant	955,992	1,020,594	982,534	38,061
Pupil Transportation	382,609	398,541	390,163	8,379
Central	2,852	3,500	2,822	678
Operation of Non-Instructional Services	253	500	250	250
Extracurricular Activities	164,092	158,659	162,388	(3,730)
Debt Service				
Principal Retirement	46,696	3,789	46,211	(42,422)
Interest and Fiscal Charges	9,443	655	9,345	(8,690)
<i>Total Expenditures</i>	<u>8,731,411</u>	<u>8,868,076</u>	<u>8,757,388</u>	<u>110,688</u>
Excess of Revenues Over (Under) Expenditures	2,044,529	(203,829)	(297,247)	(93,418)
Other Financing Sources (Uses):				
Advances In	0	0	16,077	16,077
Advances Out	0	(35,000)	(18,834)	16,166
Operating Transfers In	0	19,543	0	(19,543)
Operating Transfers Out	(245,557)	(44,449)	(25,171)	19,278
<i>Total Other Financing Sources (Uses)</i>	<u>(245,557)</u>	<u>(59,906)</u>	<u>(27,928)</u>	<u>31,978</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	1,798,972	(263,735)	(325,174)	(61,439)
<i>Fund Balance at Beginning of Year</i>	<u>688,851</u>	<u>688,851</u>	<u>688,851</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,487,823</u>	<u>\$ 425,117</u>	<u>\$ 363,677</u>	<u>\$ (61,439)</u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Governmental Activities Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 34,129
Cash and Cash Equivalents with Fiscal Agents	<u>683,374</u>
<i>Total Assets</i>	<u>717,503</u>
Liabilities	
Claims Payable	<u>88,802</u>
<i>Total Current Liabilities</i>	<u>88,802</u>
Net Assets	
Unrestricted	<u>628,701</u>
<i>Total Net Assets</i>	<u><u>\$ 628,701</u></u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues:	
Charges for services	\$ 1,126,984
Investment income	<u>3,366</u>
<i>Total Operating Revenues</i>	<u>1,130,350</u>
Operating Expenses:	
Fringe benefits	18,227
Purchased services	69,695
Claims	<u>764,970</u>
<i>Total Operating Expenses</i>	<u>852,892</u>
<i>Change in Net Assets</i>	277,458
<i>Net Assets Beginning of Year</i>	<u>351,243</u>
<i>Net Assets End of Year</i>	<u><u>\$ 628,701</u></u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 1,126,984
Interest Income	3,366
Cash Paid for Goods and Services	(69,695)
Cash Paid to Employees	(18,227)
Cash Paid for Claims	(793,053)
<i>Net Cash (Used For) Operating Activities</i>	249,375
<i>Cash and Cash Equivalents at Beginning of Year</i>	468,128
<i>Cash and Cash Equivalents at End of Year</i>	\$ 717,503
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income	\$ 277,458
Adjustments:	
Claims Payable	(28,083)
<i>Total Adjustments</i>	(28,083)
<i>Net Cash (Used For) Operating Activities</i>	\$ 249,375

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

East Palestine City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2003

	<u>Agency</u>
Assets	
Cash and Cash Equivalents:	
In Segregated Accounts	\$ <u>37,507</u>
<i>Total Assets</i>	<u>\$ 37,507</u>
Liabilities	
Accounts Payable	\$ 931
Due to Students	<u>36,576</u>
<i>Total Liabilities</i>	<u>\$ 37,507</u>

The Accompanying Notes are an Integral Part of these Basic Financial Statements.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

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, 2002, was 1,487. The District employs 106 certificated and 41 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 19. The East Palestine Public Library is a related organization of the District, which is presented in Note 18 to the basic financial statements.

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

Note 2: Summary of Significant Accounting Policies

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

C. Measurement Focus

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 2: Summary of Significant Accounting Policies (Continued)

financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

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

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 2: Summary of Significant Accounting Policies (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to certificates of deposit and overnight sweep accounts.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. The School District's Board Resolution does not provide any interest allocation to the General Fund. Total interest revenue during fiscal year 2003 amounted to \$95,378.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. There is no prepaid balance for the current year.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

G. Inventory

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

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 15 for additional information regarding set asides restricted cash.

I. Capital Assets

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

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

J. Interfund Balances

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

K. Compensated Absences

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

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

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-term Obligations

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

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

M. Net Assets

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

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

N. Fund Balance Reserves

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

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

R. Estimates

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

S. Budgetary Data

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

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

Note 3: Change in Accounting Principle and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements include the School District's programs for governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by elimination of the internal service fund, the conversion to the accrual basis of accounting, and reclassifying enterprise funds reported in the prior year to governmental funds.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 3: Change in Accounting Principle and Restatement of Fund Balances/Net Assets (Continued)

Restatement of Fund Balance The following describes the transition from governmental fund balance to net assets of the governmental activities:

	General	Bond Retirement	OSFC Construction Capital Projects	Nonmajor	Total
Fund balances, June 30, 2002	<u>\$ (128,389)</u>	<u>\$ 368,729</u>	<u>\$ 5,502,322</u>	<u>\$ 2,233,076</u>	\$ 7,975,738
GASB 34 adjustments:					
Capital assets					10,002,748
Compensated absences					(473,144)
Internal Service Fund					351,243
Pension obligations					(70,211)
Long-term (deferred) assets					9,808,333
Long-term liabilities					<u>(5,273,185)</u>
Governmental activities net assets, June 30, 2002					<u>\$ 22,321,522</u>

Note 4: Budgetary Basis of Accounting

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 4: Budgetary Basis of Accounting (Continued)

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

<u>Net Change in Fund Balance</u>	
	General Fund
Budgetary Basis	\$ (325,174)
Encumbrances	116,659
Revenue accruals	(130,971)
Expenditure accruals	<u>61,887</u>
GAAP Basis	<u><u>\$ (277,599)</u></u>

Note 5: Accountability and Compliance

Fund balances/net assets at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ 405,988
Other Governmental Funds:	
D.P.I.A	2,969
Title I	82,177
Title VI	<u>3,282</u>
Total	<u><u>\$ 494,416</u></u>

Note 6: Deposits and Investments

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 6: Deposits and Investments (Continued)

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

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

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

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

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

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 6: Deposits and Investments (Continued)

Deposits

At year-end, the carrying amount of the District's deposits was \$3,441,927 and the bank balance was \$3,575,090. Of the bank balance:

1. \$353,423 was covered by federal depository insurance.
2. \$3,221,667 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 \$683,374. 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.

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>6,306,498</u>	\$ <u>6,306,498</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 6: Deposits and Investments (Continued)

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:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 10,375,419	\$ 56,380
Certificate of Deposit with maturity of greater than three months	56,380	(56,380)
Repurchase Agreement	<u>(6,306,498)</u>	<u>6,306,498</u>
GASB Statement No. 3	<u>\$ 4,125,301</u>	<u>\$ 6,306,498</u>

Note 7: Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar year 2003 for real and public utility property taxes represent collections of calendar year 2002 taxes. Property tax payments received during calendar year 2003 for tangible personal property (other than public utility property) is for calendar year 2003 taxes.

2003 real property taxes are levied after April 1, 2003 on the assessed value as of January 1, 2003, 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. 2003 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003, and are collected in 2003 with real property taxes.

2003 tangible personal property taxes are levied after April 1, 2002 on the values as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 7: Property Taxes (Continued)

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002		2003	
	Second-Half Collections		First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and other real estate	\$ 79,944,270	76%	\$ 80,976,410	76%
Commercial Industrial	11,052,140	10%	11,062,800	10%
Tangible Personal Property	<u>15,417,420</u>	<u>14%</u>	<u>14,924,620</u>	<u>14%</u>
Total Assessed Value	<u>\$ 106,413,830</u>	<u>100%</u>	<u>\$ 106,963,830</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.

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, 2003 are available to finance fiscal year 2003 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, 2003. 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, 2003 was \$135,357.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 8: Receivables

Receivables at June 30, 2003 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:

Major Capital Projects Funds:	
Classroom Facilities	\$ <u>4,459,307</u>
Other Governmental Funds:	
Title II	3,247
Title VI-R	<u>32,892</u>
Total Other Governmental Funds	<u>36,139</u>
Total Intergovernmental Receivables	<u>\$ 4,495,446</u>

Note 9: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2003 was as follows:

	Balance at 6/30/2002	Additions	Reductions	Balance at 6/30/2003
Governmental Activities:				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 475,814	\$ 0	\$ 0	\$ 475,814
<i>Capital Assets, being depreciated:</i>				
Land Improvements	287,672	0	(10,512)	277,160
Building and building improvements	10,491,292	5,244,242	(55,012)	15,680,522
Furniture and equipment	430,026	99,575	(16,314)	513,287
Vehicles	841,659	7,955	0	849,614
Construction in Progress	<u>457,250</u>	<u>0</u>	<u>(457,250)</u>	<u>0</u>
Total capital assets, being depreciated	<u>12,507,899</u>	<u>5,351,772</u>	<u>(539,088)</u>	<u>17,320,583</u>
Less accumulated depreciation:				
Land Improvements	(274,596)	(6,385)	10,512	(270,469)
Building and building improvements	(1,974,938)	(290,015)	55,012	(2,209,941)
Furniture and equipment	(269,549)	(21,900)	12,236	(279,213)
Vehicles	<u>(461,883)</u>	<u>(63,648)</u>	<u>0</u>	<u>(525,531)</u>
Total accumulated depreciation	<u>(2,980,966)</u>	<u>(381,948)</u>	<u>77,760</u>	<u>(3,285,154)</u>
Total capital assets being depreciated, net	<u>9,526,933</u>	<u>4,969,824</u>	<u>(461,328)</u>	<u>14,035,429</u>
Governmental activities capital assets, net	<u>\$ 10,002,747</u>	<u>\$ 4,969,824</u>	<u>\$ (461,328)</u>	<u>\$ 14,511,243</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 9: Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	293,812
Support Services:		
Administration		7,676
Pupil Transportation		61,916
Operation of Non-Instructional Services		3,879
Extracurricular Activities		<u>14,665</u>
 Total depreciation expense	 \$	 <u><u>381,948</u></u>

Note 10: Long-Term Obligations

The changes in the District's long-term obligations during the fiscal year 2003 were as follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Due in</u> <u>One Year</u>
Final Judgment Bonds, 4.40% interest rate, maturing June 2004	\$ 148,698	\$ 0	\$ (66,746)	\$ 81,952	\$ 81,952
General Obligation Bonds, 10.875% interest rate, maturing December 2004	195,000	0	(65,000)	130,000	65,000
Energy Conservation Bonds, 4.21% interest rate, maturing April 2007	242,487	0	(46,211)	196,276	48,194
Bond Anticipation Note, 2.38% interest rate, maturing September 2003	1,142,880	1,082,880	(1,142,880)	1,082,880	1,082,880
Bond Anticipation Note, 1.60% interest rate, maturing September 2003	3,544,120	3,354,120	(3,544,120)	3,354,120	3,354,120
Compensated absences payable	<u>473,144</u>	<u>104,977</u>	<u>0</u>	<u>578,121</u>	<u>72,993</u>
Total long-term obligations	<u>\$ 5,746,329</u>	<u>\$ 4,541,977</u>	<u>\$ (4,864,957)</u>	<u>\$ 5,423,349</u>	<u>\$ 4,705,139</u>

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 10: Long-Term Obligations (Continued)

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 \$4,732,017 at June 30, 2003.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2003 are as follows:

Years ending June 30,	General Obligation Bonds		Energy Conservation Bonds		Final Judgement Loan		Bond Anticipation Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 65,000	\$ 10,603	\$ 48,194	\$ 7,340	\$ 81,952	\$ 3,342	\$ 4,437,000	\$ 79,438	\$ 4,632,146	\$ 100,723
2005	65,000	3,534	50,263	5,272	0	0	0	0	115,263	8,806
2006	0	0	52,420	3,114	0	0	0	0	52,420	3,114
2007	0	0	45,398	881	0	0	0	0	45,398	881
	<u>\$ 130,000</u>	<u>\$ 14,137</u>	<u>\$ 196,275</u>	<u>\$ 16,607</u>	<u>\$ 81,952</u>	<u>\$ 3,342</u>	<u>\$ 4,437,000</u>	<u>\$ 79,438</u>	<u>\$ 4,845,227</u>	<u>\$ 113,524</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.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 11: Defined Benefit Pension Plans (Continued)

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

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

Plan members are required to contribute 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, 2003, 2002 and 2001 were \$678,000, \$649,356 and \$590,592, respectively; 83% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$113,948, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 11: Defined Benefit Pension Plans (Continued)

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, 2003, 2002 and 2001 were \$174,612, \$166,128 and \$147,618, respectively; 51% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$85,224, representing the unpaid contribution for fiscal year 2003, 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, 2003, 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.

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, 2003, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$48,429 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

Note 12: Postemployment Benefits (Continued)

For this fiscal year, employer contributions to fund health care benefits were 8.54% of covered payroll, a decrease from 9.80% for fiscal year 2002. 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 2003, 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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 SERS had net assets available for payment of health care benefits of \$335.2 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 \$127,273 during the 2003 fiscal year.

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.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 14: Interfund Balances

As of June 30, 2003, balance sheet receivables and payables that resulted from cash advances from the General Fund to Other Governmental Funds 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	\$ 25,757	\$ 0	\$ 33,667	\$ 0
Other Governmental Funds:				
Debt Service	0	0	0	33,667
Title I	0	12,757	0	0
Title VI	0	3,000	0	0
Title VI-R	0	10,000	0	0
Total - All Funds	<u>\$ 25,757</u>	<u>\$ 25,757</u>	<u>\$ 33,667</u>	<u>\$ 33,667</u>

Note 15: 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, 2003, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-aside balance as of June 30, 2002	\$ 131,594	\$ 0	\$ 131,594
Current year set-aside requirement	203,435	203,435	406,870
Current year offsets	0	(430,894)	(430,894)
Current year qualifying disbursements	<u>(207,979)</u>	<u>0</u>	<u>(207,979)</u>
Total	<u>\$ 127,050</u>	<u>\$ (227,459)</u>	<u>\$ (100,409)</u>
Balance carried forward to FY 2004	<u>\$ 127,050</u>	<u>\$ 0</u>	
Cash balance carried forward to FY 2004	<u>\$ 127,050</u>	<u>\$ 0</u>	

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 15: Statutory Reserves (Continued)

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 (\$1,227,077) may be used to reduce the set-aside requirements for future years.

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for textbooks	\$ <u>127,050</u>
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Note 16: Contractual Commitments

As of June 30, 2003, the District had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 6/30/2003
<u>Ohio School Facilities Commission Project</u>			
Kreidler Construction	\$ 5,794,754	\$ 2,200,168	\$ 3,594,586
Prout Boiler & Heating	1,353,076	1,083,120	269,956
Western Reserve Mechanical, Inc.	296,105	253,725	42,380
Santon Electric	434,226	385,616	48,610
S. A. Comunal Company, Inc.	700,850	131,374	569,476
Rizzi Distributors, Inc.	92,815	87,992	4,823
Stonecreek Interior Systems, Inc.	113,336	108,550	4,786
Daniel A. Terreri & Sons, Inc.	118,920	112,970	5,950
Ricciuti Balog & Partners	700,000	543,625	156,375
Komar Plumbing Co.	559,259	0	559,259
Conti Corp.	2,869,250	0	2,869,250
Waynco Electrical Contractors	730,700	0	730,700
	\$ 13,763,291	\$ 4,907,140	\$ 8,856,151
Totals			

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 17: 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 2003, the District has property and liability insurance coverage as follows:

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

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

B. Fidelity Bond

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

C. Workers' Compensation

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

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2003

Note 17: Risk Management (Continued)

D. Employee Health Insurance

Medical/surgical, vision and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of seven school districts within the county, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$88,802 reported in the internal service fund at June 30, 2003 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 2003 and 2002 are as follows:

	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2003	<u>\$ 116,885</u>	<u>\$ 764,970</u>	<u>\$ 793,053</u>	<u>\$ 88,802</u>
2002	<u>\$ 188,285</u>	<u>\$ 937,247</u>	<u>\$ 1,008,647</u>	<u>\$ 116,885</u>

Note 18: Related Organizations

The East Palestine Public Library (the "Library") is a related organization to the District. The school board members are responsible for appointing all the trustees of East Palestine Public Library; however, the school board cannot influence the Library's operation, nor does the Library represent a potential financial benefit or burden to the District. The District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the District during the fiscal year 2003.

EAST PALESTINE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 19: 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 \$33,117 for services provided during fiscal year 2003.

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 20: 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, 2003.

B. Litigation

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

EAST PALESTINE CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Note 21: State School Funding

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

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 17, 2004

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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Palestine City School District (the "School District"), as of and for the year then ended June 30, 2003, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated February 17, 2004 which included an explanatory paragraph regarding the accounting change to GASB 34. 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 School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated February 17, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated February 17, 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

February 17, 2004

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

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

Compliance

We have audited the compliance of East Palestine City School District (the "School District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The School District's major federal program is identified in the "summary of auditor's results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, East Palestine City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Palestine City School District as of and for the year ended June 30, 2003, and have issued our report thereon dated February 17, 2004 which included an explanatory paragraph regarding the accounting change to GASB 34. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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, 2003

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 - 2002	\$ 7,015		\$ 54,998	
		C1S1 - 2003	309,475		308,812	
Total Title 1			<u>316,490</u>		<u>363,810</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	6BSF - 2002 - P	44,072		37,345	
		6BSF - 2003 - P	144,030		139,203	
Special Education - Preschool Grants	84.173	PGS1 - 2003 - P	8,710		8,710	
Total Special Education Cluster			<u>196,812</u>		<u>185,258</u>	
Title VI Ed Improve & Consol						
	84.298	C2S1 - 2002	5,693		6,527	
		C2S1 - 2003	8,705		8,705	
Total Title VI			<u>14,398</u>		<u>15,232</u>	
Title VI R Class Reduction						
	84.340	CRS1 - 2002	39,216		88,680	
Total Eisenhower Professional Development Grant						
	84.281	MSS1 - 2002	966		4,990	
Safe, Drug-Free Schools & Communities Act Grant						
	84.186	DRS1 - 2002	4,842		6,208	
		DRS1 - 2003	8,617		8,617	
Total Safe, Drug-Free Schools			<u>13,459</u>		<u>14,825</u>	
Total Technology Literacy Challenge Fund Grant						
	84.318	TF53 - 2001	0		23,242	
School Renovation IDEA & Technology						
	84.352A	ATS1 - 2002	(895)		0	
		ATS3 - 2002	753		0	
Total School Renovation IDEA & Technology			<u>(142)</u>		<u>0</u>	
Title II-A Teacher Quality						
	84.367	TRS1 - 2003	50,913		0	
		TJS1 - 2003	6,227		3,085	
Total Title II-A Teacher Quality			<u>57,140</u>		<u>3,085</u>	
Total U. S. Department of Education						
			<u>638,339</u>		<u>699,122</u>	
U. S. DEPARTMENT OF AGRICULTURE						
Passed through Ohio Department of Education:						
Nutrition Cluster:						
Food Distribution Program	10.550	FY03		\$ 6,930		\$ 6,930
School Breakfast Program						
	10.553	05PU - 2002	2,847		2,847	
		05PU - 2003	23,266		23,266	
Total School Breakfast Program			<u>26,113</u>		<u>26,113</u>	
National School Lunch Program						
	10.555	LLP4 - 2002	18,406		18,406	
		LLP4 - 2003	132,132		132,132	
Total National School Lunch Program			<u>150,538</u>		<u>150,538</u>	
Total US Department of Agriculture - Nutrition Cluster						
			<u>176,651</u>	<u>6,930</u>	<u>176,651</u>	<u>6,930</u>
Total Federal Financial Assistance						
			<u>\$ 814,990</u>	<u>\$ 6,930</u>	<u>\$ 875,773</u>	<u>\$ 6,930</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, 2003

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, 2003, 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, 2003

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

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	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 Special Education Cluster	CFDA # 84.010 CFDA # 84.027 & 84.173
(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, 2003

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



**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
APRIL 20, 2004**