



**Auditor of State
Betty Montgomery**

**CITY OF EAST PALESTINE
COLUMBIANA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of East Palestine
Columbiana County
82 Garfield Avenue
East Palestine, Ohio 44413-2009

We have audited the accompanying general-purpose financial statements of the City of East Palestine, Columbiana County, Ohio, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of East Palestine, Columbiana County, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

June 25, 2003

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THE CITY OF EAST PALESTINE, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002

| | Governmental Fund Types | | | Proprietary Fund Type | | | Fiduciary Fund Types | | | Account Groups | | |
|---------------------------------------------------------|--------------------------------|-----------------------|-------------------|------------------------------|------------------|------------------------|-----------------------------|-------------------------------|--|--------------------------|--|--|
| | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Enterprise Funds | Trust and Agency Funds | General Fixed Assets | General Long-Term Obligations | | Totals (Memorandum Only) | | |
| Assets and Other Debits: | | | | | | | | | | | | |
| Assets: | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$10,471 | \$132,127 | \$36,905 | \$134,660 | \$386,132 | \$140 | \$0 | \$0 | | \$700,435 | | |
| Investments | 32,770 | 78,824 | 0 | 814,985 | 0 | 0 | 0 | 0 | | 926,579 | | |
| Receivables (net of allowance for doubtful accounts): | | | | | | | | | | | | |
| Taxes | 254,967 | 171,973 | 0 | 0 | 0 | 0 | 0 | 0 | | 426,940 | | |
| Accounts | 365 | 5,358 | 0 | 0 | 64,628 | 706 | 0 | 0 | | 71,057 | | |
| Interest | 24,510 | 0 | 0 | 0 | 137 | 0 | 0 | 0 | | 24,647 | | |
| Loans | 0 | 17,164 | 0 | 0 | 0 | 0 | 0 | 0 | | 17,164 | | |
| Special Assessments | 0 | 0 | 929 | 0 | 0 | 0 | 0 | 0 | | 929 | | |
| Interfund Loans Receivable | 0 | 0 | 0 | 0 | 0 | 2,107,008 | 0 | 0 | | 2,107,008 | | |
| Intergovernmental Receivables | 85,646 | 365,124 | 0 | 32,873 | 0 | 0 | 0 | 0 | | 483,643 | | |
| Inventory of Supplies at Cost | 0 | 5,406 | 0 | 0 | 25,963 | 0 | 0 | 0 | | 31,369 | | |
| Prepaid Items | 24,322 | 402 | 0 | 0 | 4,443 | 0 | 0 | 0 | | 29,167 | | |
| Restricted Assets: | 0 | | | | | | | | | | | |
| Cash and Cash Equivalents | 0 | 0 | 0 | 0 | 0 | 176,337 | 0 | 0 | | 176,337 | | |
| Investments | 0 | 0 | 0 | 0 | 0 | 766,366 | 0 | 0 | | 766,366 | | |
| Fixed Assets (net of accumulated depreciation) | 0 | 0 | 0 | 0 | 2,857,883 | 0 | 4,428,608 | 0 | | 7,286,491 | | |
| Other Debits: | | | | | | | | | | | | |
| Amount Available in Debt Service Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 36,572 | | 36,572 | | |
| Amount to be Provided for General Long-Term Obligations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 378,886 | | 378,886 | | |
| Total Assets and Other Debits | \$433,051 | \$776,378 | \$37,834 | \$982,518 | \$3,339,186 | \$3,050,557 | \$4,428,608 | \$415,458 | | \$13,463,590 | | |

(Continued)

| | Governmental Fund Types | | | Proprietary Fiduciary Fund Type Fund Types | | | Account Groups | | | Totals (Memorandum Only) |
|-----------------------------------------------|-------------------------|-----------------------|-------------------|--------------------------------------------|------------------|------------------------|----------------------|-------------------------------|--|-----------------------------|
| | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Enterprise Funds | Trust and Agency Funds | General Fixed Assets | General Long-Term Obligations | | |
| Liabilities and Other Credits: | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Accounts Payable | \$26,009 | \$10,598 | \$0 | \$14,343 | \$16,684 | \$0 | \$0 | \$0 | | \$67,634 |
| Accrued Wages and Benefits | 69,516 | 15,482 | 0 | 0 | 17,271 | 0 | 0 | 0 | | 102,269 |
| Intergovernmental Payable | 160 | 0 | 0 | 0 | 2,672 | 0 | 0 | 0 | | 2,832 |
| Interfund Loans Payable | 410,000 | 87,046 | 0 | 1,609,962 | 0 | 0 | 0 | 0 | | 2,107,008 |
| Due to Others | 0 | 0 | 0 | 0 | 0 | 140 | 0 | 0 | | 140 |
| Accrued Interest Payable | 0 | 0 | 0 | 0 | 41,618 | 0 | 0 | 0 | | 41,618 |
| Deferred Revenue | 211,479 | 430,981 | 929 | 12,873 | 0 | 0 | 0 | 0 | | 656,262 |
| General Obligation Note Payable | 0 | 8,000 | 0 | 0 | 0 | 0 | 0 | 0 | | 8,000 |
| Compensated Absences Payable | 0 | 0 | 0 | 0 | 46,443 | 0 | 0 | 200,545 | | 246,988 |
| Capital Leases Payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 214,913 | | 214,913 |
| General Obligation Bonds Payable | 0 | 0 | 0 | 0 | 2,070,000 | 0 | 0 | 0 | | 2,070,000 |
| Ohio Water Development Authority Loan Payable | 0 | 0 | 0 | 0 | 1,525,797 | 0 | 0 | 0 | | 1,525,797 |
| Ohio Public Works Commission Loan Payable | 0 | 0 | 0 | 0 | 18,980 | 0 | 0 | 0 | | 18,980 |
| Farmers Home Administration Loan | 0 | 0 | 0 | 0 | 2,236,000 | 0 | 0 | 0 | | 2,236,000 |
| Total Liabilities | 717,164 | 552,107 | 929 | 1,637,178 | 5,975,465 | 140 | 0 | 415,458 | | 9,298,441 |
| Equity and Other Credits: | | | | | | | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 | 0 | 0 | 4,428,608 | 0 | | 4,428,608 |
| Contributed Capital | 0 | 0 | 0 | 0 | 1,698,037 | 0 | 0 | 0 | | 1,698,037 |
| Retained Earnings: | | | | | | | | | | |
| Unreserved | 0 | 0 | 0 | 0 | (4,334,316) | 0 | 0 | 0 | | (4,334,316) |
| Fund Balances: | | | | | | | | | | |
| Reserved for Encumbrances | 0 | 42,402 | 333 | 700,020 | 0 | 0 | 0 | 0 | | 742,755 |
| Reserved for Supplies Inventory | 0 | 5,406 | 0 | 0 | 0 | 0 | 0 | 0 | | 5,406 |
| Reserved for Prepaid Items | 24,322 | 402 | 0 | 0 | 0 | 0 | 0 | 0 | | 24,724 |
| Reserved for Debt Service | 0 | 0 | 36,572 | 0 | 0 | 0 | 0 | 0 | | 36,572 |
| Reserved for Restricted Assets | 0 | 0 | 0 | 0 | 0 | 942,703 | 0 | 0 | | 942,703 |
| Unreserved: | | | | | | | | | | |
| Undesignated | (308,435) | 176,061 | 0 | (1,354,680) | 0 | 2,107,714 | 0 | 0 | | 620,660 |
| Total Equity and Other Credits | (284,113) | 224,271 | 36,905 | (654,660) | (2,636,279) | 3,050,417 | 4,428,608 | 0 | | 4,165,149 |
| Total Liabilities, Equity and Other Cred | \$433,051 | \$776,378 | \$37,834 | \$982,518 | \$3,339,186 | \$3,050,557 | \$4,428,608 | \$415,458 | | \$13,463,590 |

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

| | <i>Governmental Fund Types</i> | | | | |
|----------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------|-------------------|------------------------|--------------------------|
| | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Totals (Memorandum Only) |
| Revenues: | | | | | |
| Taxes | \$797,937 | \$152,808 | \$0 | \$0 | \$950,745 |
| Intergovernmental Revenues | 167,651 | 575,493 | 0 | 104,943 | 848,087 |
| Charges for Services | 132,476 | 129,719 | 0 | 41,135 | 303,330 |
| Licenses and Permits | 13,762 | 0 | 0 | 0 | 13,762 |
| Investment Earnings | 101,543 | 0 | 0 | 0 | 101,543 |
| Special Assessments | 1,476 | 0 | 20,750 | 0 | 22,226 |
| Fines and Forfeitures | 6,452 | 1,269 | 0 | 0 | 7,721 |
| All Other Revenues | <u>54,458</u> | <u>72,284</u> | <u>0</u> | <u>54,575</u> | <u>181,317</u> |
| Total Revenues | 1,275,755 | 931,573 | 20,750 | 200,653 | 2,428,731 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Security of Persons and Property | 1,102,202 | 95,948 | 0 | 0 | 1,198,150 |
| Public Health and Welfare Services | 49,772 | 0 | 0 | 0 | 49,772 |
| Leisure Time Activities | 0 | 252,585 | 0 | 0 | 252,585 |
| Community Environment | 0 | 193,838 | 0 | 0 | 193,838 |
| Transportation | 0 | 354,288 | 0 | 0 | 354,288 |
| General Government | <u>566,053</u> | <u>65,844</u> | <u>0</u> | <u>0</u> | <u>631,897</u> |
| Capital Outlay | 0 | 27,951 | 0 | 790,032 | 817,983 |
| Debt Service: | | | | | |
| Principal Retirements | 0 | 0 | 15,000 | 0 | 15,000 |
| Interest and Fiscal Charges | 0 | 3,821 | 2,571 | 26,391 | 32,783 |
| Total Expenditures | 1,718,027 | 994,275 | 17,571 | 816,423 | 3,546,296 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (442,272) | (62,702) | 3,179 | (615,770) | (1,117,565) |
| Other Financing Sources (Uses): | | | | | |
| Other Financing Sources - Capital Lease | 0 | 0 | 0 | 163,260 | 163,260 |
| Operating Transfers In | 163,000 | 119,715 | 0 | 325,248 | 607,963 |
| Operating Transfers Out | <u>(185,398)</u> | <u>(72,474)</u> | <u>0</u> | <u>0</u> | <u>(257,872)</u> |
| Total Other Financing Sources (Uses) | (22,398) | 47,241 | 0 | 488,508 | 513,351 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (464,670) | (15,461) | 3,179 | (127,262) | (604,214) |
| Restated Fund Balance (Deficit) Beginning of Year | 180,557 | 237,551 | 33,726 | (527,398) | (75,564) |
| Increase in Inventory Reserve | 0 | 2,181 | 0 | 0 | 2,181 |
| Fund Balance (Deficit) End of Year | <u>(\$284,113)</u> | <u>\$224,271</u> | <u>\$36,905</u> | <u>(\$654,660)</u> | <u>(\$677,597)</u> |

The notes to the general purpose financial statements are an integral part of this statement.

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THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

| | General Fund | | | Special Revenue Funds | | |
|----------------------------------------|---------------------|-----------|-----------------------------------------|------------------------------|-----------|-----------------------------------------|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| | | | Favorable (Unfavorable) | | | Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Taxes | \$1,043,706 | \$804,162 | (\$239,544) | \$151,922 | \$152,808 | \$886 |
| Intergovernmental Revenues | 223,311 | 172,058 | (51,253) | 481,320 | 484,126 | 2,806 |
| Charges for Services | 173,027 | 133,315 | (39,712) | 129,860 | 130,617 | 757 |
| Licenses and Permits | 69,869 | 53,833 | (16,036) | 0 | 0 | 0 |
| Investment Earnings | 103,406 | 79,673 | (23,733) | 0 | 0 | 0 |
| Special Assessments | 1,916 | 1,476 | (440) | 0 | 0 | 0 |
| Fines and Forfeitures | 9,462 | 7,290 | (2,172) | 1,243 | 1,250 | 7 |
| All Other Revenues | 63,067 | 48,592 | (14,475) | 67,570 | 67,964 | 394 |
| Total Revenues | 1,687,764 | 1,300,399 | (387,365) | 831,915 | 836,765 | 4,850 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 1,112,691 | 1,094,034 | 18,657 | 110,448 | 101,324 | 9,124 |
| Public Health and Welfare Services | 51,137 | 50,208 | 929 | 0 | 0 | 0 |
| Leisure Time Activities | 0 | 0 | 0 | 280,235 | 261,744 | 18,491 |
| Community Environment | 0 | 0 | 0 | 211,293 | 229,213 | (17,920) |
| Transportation | 0 | 0 | 0 | 394,059 | 363,416 | 30,643 |
| General Government | 563,132 | 554,861 | 8,271 | 71,918 | 67,907 | 4,011 |
| Capital Outlay | 0 | 0 | 0 | 30,468 | 29,451 | 1,017 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 17,441 | 16,000 | 1,441 |
| Interest and Fiscal Charges | 0 | 0 | 0 | 4,165 | 3,821 | 344 |
| Total Expenditures | 1,726,960 | 1,699,103 | 27,857 | 1,120,027 | 1,072,876 | 47,151 |
| Excess (Deficiency) of | | | | | | |
| Revenues Over (Under) Expenditures | (39,196) | (398,704) | (359,508) | (288,112) | (236,111) | 52,001 |
| Other Financing Sources (Uses): | | | | | | |
| Proceeds from General Obligation Notes | 0 | 0 | 0 | 8,000 | 8,000 | 0 |
| Operating Transfers In | 163,000 | 163,000 | 0 | 119,715 | 119,715 | 0 |
| Operating Transfers Out | (185,398) | (185,398) | 0 | (72,474) | (72,474) | 0 |
| Advances In | 0 | 350,000 | 350,000 | 0 | 0 | 0 |
| Advances Out | 0 | 0 | 0 | (7,254) | (7,254) | 0 |
| Total Other Financing Sources (Uses) | (22,398) | 327,602 | 350,000 | 47,987 | 47,987 | 0 |
| Excess (Deficiency) of Revenues and | | | | | | |
| Other Financing Sources Over (Under) | | | | | | |
| Expenditures and Other Financing Uses | (61,594) | (71,102) | (9,508) | (240,125) | (188,124) | 52,001 |
| Fund Balance at Beginning of Year | 98,523 | 98,523 | 0 | 302,808 | 302,808 | 0 |
| Prior Year Encumbrances | 11,858 | 11,858 | 0 | 50,893 | 50,893 | 0 |
| Fund Balance at End of Year | \$48,787 | \$39,279 | (\$9,508) | \$113,576 | \$165,577 | \$52,001 |

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

| Debt Service Fund | | | Capital Projects Funds | | | Totals (Memorandum Only) | | |
|--------------------------|-----------------|-----------------------------------------|-------------------------------|------------------|-----------------------------------------|---------------------------------|------------------|-----------------------------------------|
| Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,195,628 | \$956,970 | (\$238,658) |
| 0 | 0 | 0 | 88,490 | 84,943 | (3,547) | 793,121 | 741,127 | (51,994) |
| 0 | 0 | 0 | 42,853 | 41,135 | (1,718) | 345,740 | 305,067 | (40,673) |
| 0 | 0 | 0 | 0 | 0 | 0 | 69,869 | 53,833 | (16,036) |
| 0 | 0 | 0 | 0 | 0 | 0 | 103,406 | 79,673 | (23,733) |
| 19,500 | 20,750 | 1,250 | 0 | 0 | 0 | 21,416 | 22,226 | 810 |
| 0 | 0 | 0 | 0 | 0 | 0 | 10,705 | 8,540 | (2,165) |
| 0 | 0 | 0 | 56,854 | 54,575 | (2,279) | 187,491 | 171,131 | (16,360) |
| 19,500 | 20,750 | 1,250 | 188,197 | 180,653 | (7,544) | 2,727,376 | 2,338,567 | (388,809) |
| 0 | 0 | 0 | 0 | 0 | 0 | 1,223,139 | 1,195,358 | 27,781 |
| 0 | 0 | 0 | 0 | 0 | 0 | 51,137 | 50,208 | 929 |
| 0 | 0 | 0 | 0 | 0 | 0 | 280,235 | 261,744 | 18,491 |
| 0 | 0 | 0 | 0 | 0 | 0 | 211,293 | 229,213 | (17,920) |
| 0 | 0 | 0 | 0 | 0 | 0 | 394,059 | 363,416 | 30,643 |
| 0 | 0 | 0 | 0 | 0 | 0 | 635,050 | 622,768 | 12,282 |
| 0 | 0 | 0 | 1,312,488 | 1,330,305 | (17,817) | 1,342,956 | 1,359,756 | (16,800) |
| 15,000 | 15,000 | 0 | 0 | 0 | 0 | 32,441 | 31,000 | 1,441 |
| 6,000 | 2,904 | 3,096 | 55,078 | 26,391 | 28,687 | 65,243 | 33,116 | 32,127 |
| 21,000 | 17,904 | 3,096 | 1,367,566 | 1,356,696 | 10,870 | 4,235,553 | 4,146,579 | 88,974 |
| (1,500) | 2,846 | 4,346 | (1,179,369) | (1,176,043) | 3,326 | (1,508,177) | (1,808,012) | (299,835) |
| 0 | 0 | 0 | 0 | 0 | 0 | 8,000 | 8,000 | 0 |
| 0 | 0 | 0 | 325,248 | 325,248 | 0 | 607,963 | 607,963 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | (257,872) | (257,872) | 0 |
| 0 | 0 | 0 | 950,240 | 950,240 | 0 | 950,240 | 1,300,240 | 350,000 |
| 0 | 0 | 0 | (93,000) | (93,000) | 0 | (100,254) | (100,254) | 0 |
| 0 | 0 | 0 | 1,182,488 | 1,182,488 | 0 | 1,208,077 | 1,558,077 | 350,000 |
| (1,500) | 2,846 | 4,346 | 3,119 | 6,445 | 3,326 | (300,100) | (249,935) | 50,165 |
| 14,688 | 14,688 | 0 | 138,143 | 138,143 | 0 | 554,162 | 554,162 | 0 |
| 0 | 0 | 0 | 122,682 | 122,682 | 0 | 185,433 | 185,433 | 0 |
| \$13,188 | \$17,534 | \$4,346 | \$263,944 | \$267,270 | \$3,326 | \$439,495 | \$489,660 | \$50,165 |

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

| | <i>Proprietary</i> | | <i>Non-</i> | | <i>Totals</i> (<i>Memorandum</i> <i>Only</i>) |
|-------------------------------------------------|-----------------------------|-----------------|-------------------|---------------------------|-------------------------------------------------------|
| | <i>Fund Types</i> | | <i>Expendable</i> | <i>Trust</i> | |
| | <i>Enterprise</i> | <i>Internal</i> | <i>Service</i> | <i>Funds</i> | |
| | <i>Funds</i> | | <i>Fund</i> | <i>Funds</i> | |
| <u>Operating Revenues:</u> | | | | | |
| Charges for Services | \$1,442,118 | | \$72,000 | \$0 | \$1,514,118 |
| Total Operating Revenues | 1,442,118 | | 72,000 | 0 | 1,514,118 |
| <u>Operating Expenses:</u> | | | | | |
| Personal Services | 355,093 | | 237,494 | 0 | 592,587 |
| Materials and Supplies | 45,838 | | 0 | 0 | 45,838 |
| Contractual Services | 100,294 | | 0 | 0 | 100,294 |
| Utilities | 149,162 | | 0 | 0 | 149,162 |
| Depreciation | 201,999 | | 0 | 0 | 201,999 |
| Total Operating Expenses | 852,386 | | 237,494 | 0 | 1,089,880 |
| Operating Income (Loss) | 589,732 | | (165,494) | 0 | 424,238 |
| <u>Nonoperating Revenues (Expenses):</u> | | | | | |
| Investment Earnings | 2,814 | | 0 | 9,425 | 12,239 |
| Interest and Fiscal Charges | (285,914) | | 0 | 0 | (285,914) |
| Other Nonoperating Revenues | 2,679 | | 45,083 | 0 | 47,762 |
| Capital Contributions | 167,431 | | 0 | 0 | 167,431 |
| Loss on Disposal of Fixed Assets | (892) | | 0 | 0 | (892) |
| Total Nonoperating Revenues (Expenses) | (113,882) | | 45,083 | 9,425 | (59,374) |
| Income (Loss) Before Operating Transfers | 475,850 | | (120,411) | 9,425 | 364,864 |
| <u>Operating Transfers:</u> | | | | | |
| Operating Transfers In | 39,954 | | 0 | 0 | 39,954 |
| Operating Transfers Out | (390,045) | | 0 | 0 | (390,045) |
| Total Operating Transfers | (350,091) | | 0 | 0 | (350,091) |
| Net Income (Loss) | 125,759 | | (120,411) | 9,425 | 14,773 |
| Retained Earnings (Accumulated Deficit)/ | | | | | |
| Fund Balance at Beginning of Year (Restated) | (4,460,075) | | 120,411 | 3,040,992 | (1,298,672) |
| Retained Earnings (Accumulated Deficit)/ | | | | | |
| Fund Balance at End of Year | <u><u>(\$4,334,316)</u></u> | | <u><u>\$0</u></u> | <u><u>\$3,050,417</u></u> | <u><u>(\$1,283,899)</u></u> |

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

| | <i>Proprietary Fund Types</i> | <i>Non- Expendable</i> | <i>Totals</i> | |
|----------------------------------------------------------------------------------|-----------------------------------|--------------------------------------|------------------------|------------------------------|
| | <i>Enterprise Funds</i> | <i>Internal Service Fund</i> | <i>Trust Funds</i> | <i>(Memorandum Only)</i> |
| <u>Cash Flows from Operating Activities:</u> | | | | |
| Cash Received from Customers | \$1,450,944 | \$224,970 | \$0 | \$1,675,914 |
| Cash Payments for Goods and Services | (299,659) | 0 | 0 | (299,659) |
| Cash Payments to Employees | (348,805) | (278,949) | 0 | (627,754) |
| Net Cash Provided (Used) for Operating Activities | 802,480 | (53,979) | 0 | 748,501 |
| <u>Cash Flows from Noncapital Financing Activities:</u> | | | | |
| Advances In from Other Funds | 0 | 0 | 100,254 | 100,254 |
| Advances Out to Other Funds | 0 | 0 | (1,300,240) | (1,300,240) |
| Transfers In from Other Funds | 39,954 | 0 | 3,256 | 43,210 |
| Transfers Out to Other Funds | (390,045) | 0 | 0 | (390,045) |
| Net Cash Used by Noncapital Financing Activities | (350,091) | 0 | (1,196,730) | (1,546,821) |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | | | | |
| Acquisition and Construction of Assets | (10,040) | 0 | 0 | (10,040) |
| Principal Paid on General Obligation Bond | (85,000) | 0 | 0 | (85,000) |
| Principal Paid on Farmers Home Administration Loan | (30,000) | 0 | 0 | (30,000) |
| Principal Paid on Ohio Water Development Authority Loans | (67,425) | 0 | 0 | (67,425) |
| Principal Paid on Ohio Public Works Commission Loan | (2,920) | 0 | 0 | (2,920) |
| Interest Paid on All Debt | (287,974) | 0 | 0 | (287,974) |
| Net Cash Used for Capital and Related Financing Activities | (483,359) | 0 | 0 | (483,359) |
| <u>Cash Flows from Investing Activities:</u> | | | | |
| Sale of Investments | 0 | 0 | 590,038 | 590,038 |
| Receipts of Interest | 5,464 | 0 | 5,553 | 11,017 |
| Net Cash Provided by Investing Activities | 5,464 | 0 | 595,591 | 601,055 |
| Net Decrease in Cash and Cash Equivalents | (25,506) | (53,979) | (601,139) | (680,624) |
| Cash and Cash Equivalents at Beginning of Year | 411,638 | 53,979 | 777,476 | 1,243,093 |
| Cash and Cash Equivalents at End of Year | <u>\$386,132</u> | <u>\$0</u> | <u>\$176,337</u> | <u>\$562,469</u> |
| <u>Reconciliation of Cash and Cash Equivalents per the Balance Sheet:</u> | | | | |
| Cash and Cash Equivalents | \$0 | \$0 | \$0 | \$0 |
| Add: Restricted Cash and Cash Equivalents | 0 | 0 | 176,337 | 176,337 |
| Cash and Cash Equivalents at End of Year | <u>\$0</u> | <u>\$0</u> | <u>\$176,337</u> | <u>\$176,337</u> |

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

| | <i>Proprietary Fund Types</i> | | <i>Non- Expendable Trust Funds</i> | <i>Totals (Memorandum Only)</i> |
|----------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------|------------------------------------------------|-----------------------------------------|
| | <i>Enterprise Funds</i> | <i>Internal Service Fund</i> | | |
| | | | | |
| <u>Reconciliation of Operating Income (Loss) to Net Cash</u> | | | | |
| <u>Provided (Used) by Operating Activities:</u> | | | | |
| Operating Income (Loss) | \$589,732 | (\$165,494) | \$0 | \$424,238 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation Expense | 201,999 | 0 | 0 | 201,999 |
| Non-Operating Revenues | 2,679 | 152,970 | 0 | 155,649 |
| Changes in Assets and Liabilities: | | | | |
| Decrease in Accounts Receivable | 6,147 | 0 | 0 | 6,147 |
| Increase in Inventory | (5,660) | 0 | 0 | (5,660) |
| Increase in Prepaid Items | (924) | 0 | 0 | (924) |
| Decrease in Accounts Payable | (518) | 0 | 0 | (518) |
| Increase in Accrued Wages and Benefits | 3,362 | 0 | 0 | 3,362 |
| Decrease in Claims Payable | 0 | (41,455) | 0 | (41,455) |
| Increase in Compensated Absences | 2,991 | 0 | 0 | 2,991 |
| Increase in Intergovernmental Payables | 2,672 | 0 | 0 | 2,672 |
| Total Adjustments | 212,748 | 111,515 | 0 | 324,263 |
| Net Cash Provided (Used) for Operating Activities | \$802,480 | (\$53,979) | \$0 | \$748,501 |

Schedule of Noncash Investing, Capital and Financing Activities:

During fiscal year 2002, Water and Sewer Funds received \$1,448 and \$165,983, respectively of capital assets contributed from other funds.

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF EAST PALESTINE, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of East Palestine, Ohio (the "City") is a home rule municipal corporation created under the laws of the State of Ohio. East Palestine was first incorporated as a village on February 27, 1876. The City currently operates under and is governed by its own Charter. The current Charter, which provides for a Council-City Manager form of government, was adopted in 1990.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (the "GASB") Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the City (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the City's ability to impose its will over the organization, or the possibility that the organization will provide a financial benefit to or impose a financial burden on the City. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the City's reporting entity. Based on the foregoing, the reporting entity of the City includes the following services: police and fire protection, emergency medical, parks, recreation, planning, zoning, street maintenance and other governmental services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds - The governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those resources accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the provisions of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

Proprietary Funds - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - This fund is used to account for the financing of services provided by one department to other departments or agencies of the governmental unit, or to other governmental units on a cost reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City maintains one agency fund and two nonexpendable trust funds. The nonexpendable trust funds are accounted for and reported similarly to proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

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

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

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term liabilities of the City except those accounted for in the proprietary funds.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments, special assessments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Property taxes measurable as of December 31, 2002 but which are not intended to finance 2002 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the proprietary and nonexpendable trust funds. Revenues are recognized when earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the City Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund 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 on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. During 2002, several supplemental appropriations were necessary to budget the use of contingency funds and various note proceeds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

5. Lapsing of Appropriations

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

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****D. Budgetary Process (Continued)****6. Budgetary Basis of Accounting (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental funds:

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

| | General Fund | Special Revenue Funds | Debt Service Fund | Capital Project Funds |
|------------------------------------------------------------------|--------------------------|-----------------------------|-------------------------|-----------------------------|
| GAAP Basis (as reported) | (\$464,670) | (\$15,461) | \$3,179 | (\$127,262) |
| | | | | |
| Increase (Decrease): | | | | |
| Accrued Revenues at December 31, 2002 received during 2003 | (154,009) | (128,638) | 0 | (20,000) |
| Accrued Revenues at December 31, 2001 received during 2002 | 178,653 | 33,830 | 0 | 0 |
| Accrued Expenditures at December 31, 2002 paid during 2003 | 445,685 | 107,126 | 0 | 1,630,305 |
| Accrued Expenditures at December 31, 2001 paid during 2002 | (81,065) | (131,205) | 0 | (775,185) |
| Fund Debt: | | | | |
| Note Proceeds | 0 | 8,000 | 0 | 0 |
| Note Retirements | 0 | (16,000) | 0 | 0 |
| 2001 Prepays for 2002 | 32,138 | 0 | 0 | 0 |
| 2002 Prepays for 2003 | (24,322) | (402) | 0 | 0 |
| Outstanding Encumbrances | <u>(3,512)</u> | <u>(45,374)</u> | <u>(333)</u> | <u>(701,413)</u> |
| Budget Basis | <u><u>(\$71,102)</u></u> | <u><u>(\$188,124)</u></u> | <u><u>\$2,846</u></u> | <u><u>\$6,445</u></u> |

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasurer's Assets Reserve (STAR Ohio), repurchase agreements and certificates of deposit. The repurchase agreements and STAR Ohio are considered cash equivalents because of their highly liquid nature.

The City pools a majority of its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' shares of equity in pooled repurchase agreements and certificates of deposit are considered to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*, the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost.

The City has invested funds in the STAR Ohio during 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2002. See Note 4, "Cash, Cash Equivalents and Investments."

G. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary and non-expendable trust funds when used.

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

General fixed asset values were initially determined at December 31, 1992 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**H. Fixed Assets and Depreciation** (Continued)**2. Property, Plant and Equipment - Proprietary Funds**

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

| Description | Estimated Lives (Years) |
|----------------------------------------------|-------------------------|
| Buildings | 30 - 40 |
| Improvements Other Than Buildings | 50 |
| Machinery, Equipment, Furniture and Fixtures | 5 - 15 |

I. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

| Obligation | Fund |
|----------------------------------------|-------------------------------------------------------------------------------------------------|
| Ohio Water Development Authority Loans | Water Fund Sewer Fund |
| General Obligation Bond | Sewer Fund |
| Ohio Public Works Commission Loan | General Bond Retirement Fund |
| Farmers Home Administration Loan | Sewer Fund |
| Special Assessment Bond | General Bond Retirement Fund |
| Compensated Absences | General Fund Street Construction, Maintenance and Repair Fund Water Fund Sewer Fund |
| Capital Leases | General Fund Capital Improvement Fund |

J. Compensated Absences

In accordance with GASB Statement No. 16, *"Accounting for Compensated Absences,"* vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The remaining portion of the liability is reported in the General Long-Term Obligations Account Group.

Compensated absences are expensed in the Water and Sewer Funds when earned, and the related liability is reported within the fund.

K. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

L. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. There were no residual equity transfers performed in 2002.

Transactions that would be treated as revenues and expenditures if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

M. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, debt service, restricted assets and encumbered amounts which have not been accrued at year end.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****N. Contributed Capital**

Proprietary fund type contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from grants, entitlements and shared revenues is recorded as an operating expense and closed along with other operating expenses directly to retained earnings.

O. Total Columns on Combined Financial Statements - Overview

Total columns on the "Combined Financial Statements - Overview" are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS

A restatement was necessary to correct errors in accounting for both interfund loans payable and an OPWC Loan payable. The beginning balance of the general long-term obligations account group decreased from \$434,528 to \$412,628 as a result of the restatement. The correction of the accounting errors also had the following effect on general, special revenue, capital projects, enterprise and internal service fund balances/retained earnings at January 1, 2002:

| Fund Type | Total Fund Balance/ Retained Earnings as Reported 12/31/2001 | Adjustment Increase (Decrease) | Total Fund Balance/ Retained Earnings as Restated 1/1/2002 |
|------------------|--------------------------------------------------------------------------|--------------------------------------|------------------------------------------------------------------------|
| | | | |
| General | \$240,557 | (\$60,000) | \$180,557 |
| Special Revenue | 243,551 | (6,000) | 237,551 |
| Capital Projects | (533,398) | 6,000 | (527,398) |
| Enterprise | (4,438,175) | (21,900) | (4,460,075) |
| Internal Service | 60,411 | 60,000 | 120,411 |

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2002 of \$284,113 in the General Fund, 3,816 in the Police Pension Fund, \$85,716 in the Downtown Revitalization Fund, \$296 in the Food Service Fund (special revenue funds) and \$753,546 in the Capital Improvement Fund (capital projects fund) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The accumulated deficit of \$4,793,337 in the Sewer Fund (enterprise fund) results from the recognition of the Farmers Home Administration Loan and Various Purpose Bonds as liabilities within the fund that are not recognized under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;
- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end the carrying amount of the City's deposits was \$1,869,692 and the bank balance \$1,882,305. The Federal Deposit Insurance Corporation (FDIC) covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

Investment earnings of \$99,701 earned by other funds were credited to the General Fund as required by state statute.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)****B. Investments**

The City's investments at December 31, 2002 are summarized below:

| <u>Categorized Investments</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Fair Value</u> |
|------------------------------------|-------------------|-------------------|-------------------|
| Pension Obligation Note | \$8,000 | \$0 | \$8,000 |
| Repurchase Agreement | 0 | 105,388 | 105,388 |
| Total Categorized Investments | 8,000 | 105,388 | 113,388 |
| <hr/> | | | |
| <u>Non-Categorized Investments</u> | | | |
| STAR Ohio | N/A | N/A | 586,637 |
| Total Investments | \$8,000 | \$105,388 | \$700,025 |

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio and certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|--------------------------------------------------------------------|--------------------------------------|--------------------|
| Per Combined Balance Sheet | \$876,772 | \$1,692,945 |
| Certificates of Deposit (with maturities of more than 3 months) | 1,684,945 | (1,684,945) |
| Investments: | | |
| STAR Ohio | (586,637) | 586,637 |
| Repurchase Agreement | (105,388) | 105,388 |
| Per GASB Statement No. 3 | <u>\$1,869,692</u> | <u>\$700,025</u> |

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2002 were levied after October 1, 2001 on assessed values as of January 1, 2001 the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1998. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of East Palestine. The County Auditor periodically remits to the City its portion of the taxes collected.

The full property tax rate for all City operations for the year ended December 31, 2002 was \$5.40 per \$1,000 of assessed value. The assessed value upon which the 2002 tax receipts was based was \$57,316,640. This amount constitutes \$48,239,230 in real property assessed value, \$2,756,680 in public utility assessed value, and \$6,320,730 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .54% (5.4 mills) of assessed value.

The City levies a tax of 1.0% on all salaries, wages, commissions and other compensation, on net profits earned within the City and on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2002 consisted of taxes, interest, accounts receivable, CDBG loans, special assessments, interfund receivables and intergovernmental receivables.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 7 - OPERATING TRANSFERS**

Following is a summary of operating transfers in and out for all funds for 2002:

| Fund | Transfer In | Transfer Out |
|--------------------------------------------------|------------------|------------------|
| General Fund | \$163,000 | \$185,398 |
| Special Revenue Funds: | | |
| Street Construction, Maintenance and Repair Fund | 101,000 | 9,816 |
| Street Light Fund | 0 | 50,000 |
| Parks and Recreation Fund | 0 | 12,658 |
| Cemetery Fund | 5,000 | 0 |
| Downtown Revitalization Fund | 9,835 | 0 |
| Food Service Fund | 480 | 0 |
| Compensated Absences Fund | 3,400 | 0 |
| Total Special Revenue Funds | 119,715 | 72,474 |
| Capital Projects Fund: | | |
| Capital Improvement Fund | 325,248 | 0 |
| Enterprise Funds: | | |
| Water Fund | 0 | 139,507 |
| Sewer Fund | 39,954 | 234,538 |
| Sewer Project Fund | 0 | 16,000 |
| Total Enterprise Funds | 39,954 | 390,045 |
| Totals | <u>\$647,917</u> | <u>\$647,917</u> |

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2002:

| Fund | Interfund Loans Receivable | Interfund Loans Payable |
|------------------------------|-------------------------------|----------------------------|
| General Fund | \$0 | \$410,000 |
| Special Revenue Fund: | | |
| Downtown Revitalization Fund | 0 | 87,046 |
| Capital Projects Fund: | | |
| Capital Improvement Fund | 0 | 1,609,962 |
| Nonexpendable Trust Fund: | | |
| Electric Trust Fund | 2,107,008 | 0 |
| Totals | <u>\$2,107,008</u> | <u>\$2,107,008</u> |

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 9 - FIXED ASSETS****A. General Fixed Assets**

Summary by Category of changes in General Fixed Assets:

| Category | December 31, | | December 31, | |
|-----------------------------------|--------------------|------------------|-------------------|--------------------|
| | 2001 | Additions | Deletions | 2002 |
| Land | \$175,335 | \$0 | \$0 | \$175,335 |
| Buildings | 1,476,952 | 7,586 | (31,182) | 1,453,356 |
| Improvements Other than Buildings | 76,273 | 0 | 0 | 76,273 |
| Machinery and Equipment | 2,455,800 | 335,098 | (67,254) | 2,723,644 |
| Totals | \$4,184,360 | \$342,684 | (\$98,436) | \$4,428,608 |

Schedule of General Fixed Assets at December 31, 2002:

| General Fixed Assets | Investment in General Fixed Assets |
|-----------------------------------|------------------------------------|
| Land | General Fund \$519,901 |
| Buildings | Special Revenue Funds 583,466 |
| Improvements Other than Buildings | Capital Projects Funds 1,475,839 |
| Machinery and Equipment | Proprietary Funds 480,551 |
| Total | Donations 1,368,851 |
| | Total \$4,428,608 |

B. Proprietary Fixed Assets

Summary by Category at December 31, 2002:

| Category | Historic Cost | Accumulated Depreciation | Book Value |
|--------------------------------------|--------------------|--------------------------|--------------------|
| Land | \$177,511 | \$0 | \$177,511 |
| Buildings and Improvements | 2,274,108 | (1,107,975) | 1,166,133 |
| Utility Structures in Services | 1,683,349 | (1,068,167) | 615,182 |
| Machinery and Equipment | 1,524,665 | (625,608) | 899,057 |
| Property, Plant and Equipment | \$5,659,633 | (\$2,801,750) | \$2,857,883 |

NOTE 10 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the “Ohio PERS”)

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, *“Accounting for Pensions by State and Local Government Employers.”*

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Ohio PERS, a cost-sharing multiple employer defined benefit pension plan. The Ohio PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2002 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2002, 2001 and 2000 were \$153,216, \$143,604 and \$112,321, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5.0% of covered payroll which amounted to \$56,537.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System’s latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2001 is \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2002, 2001 and 2000 were \$60,727, \$65,228 and \$64,774 for police and \$10,867, \$10,560 and \$10,487 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**B. Ohio Police and Fire Pension Fund (the “OP&F Fund”) (Continued)**

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$24,135 representing 7.75% of covered payroll for police and \$3,509 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 11 - COMPENSATED ABSENCES

The City provides a liability for accumulated unpaid sick leave, vacation and compensatory time benefits when earned by employees.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The liability decreased \$53,136 from the beginning year balance of \$253,681 to a year end balance of \$200,545.

At December 31, 2002, the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

| | Hours | Amount |
|------------------------------|---------------|------------------|
| Sick Leave | 19,804 | \$155,508 |
| Vacation / Compensatory Time | 2,698 | 45,037 |
| Total | <u>22,502</u> | <u>\$200,545</u> |

The portion attributable to the enterprise funds has been recorded within the respective fund and is not included in the figures presented above.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 12 - NOTES PAYABLE**

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to, and payable no later than, those principal maturities required if the bonds had been issued at the expiration of the initial five year period.

Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources. The City is retiring its notes by the issuance of one year renewal notes with a portion of the principal being retired in accordance with the above provisions.

The following general obligation notes were payable at December 31, 2002:

| | Balance | | Balance |
|-----------------------------------|--------------------|---------------------|----------------------|
| | January 1, 2002 | Issued (Retired) | December 31, 2002 |
| General Obligation Notes Payable: | | | |
| 7.75% Pension Obligation Note | \$16,000 | (\$16,000) | \$0 |
| 7.75% Pension Obligation Note | 0 | 8,000 | 8,000 |
| Total Notes Payable | <u>\$16,000</u> | <u>(\$8,000)</u> | <u>\$8,000</u> |

NOTE 13 - CAPITAL LEASES

The City leases an ambulance, ambulette, jet cleaner, backhoe, copier, computer equipment and two trucks under capital leases. The cost of the equipment obtained under the capital lease is included in the General Fixed Assets Account Group and the related liability in the General Long-Term Obligations Account Group.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2002:

| Year Ending December 31, | Capital Leases |
|-----------------------------------------|------------------|
| 2003 | \$117,503 |
| 2004 | 47,124 |
| 2005 | 41,941 |
| 2006 | <u>27,535</u> |
| Minimum Lease Payments | 234,103 |
| Less amount representing | |
| interest at the City's incremental | |
| borrowing rate of interest | |
| Present value of minimum lease payments | |
| | <u>(19,190)</u> |
| | <u>\$214,913</u> |

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 14 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 2002 were as follows:

| | | Balance December 31, 2001 | Issued (Retired) | Balance December 31, 2002 |
|-----------------------------------------------------------------|------|---------------------------------|---------------------|---------------------------------|
| Enterprise Funds Long-Term Debt: | | | | |
| General Obligation Bond: | | | | |
| Various Purpose Bond | 1999 | \$2,155,000 | (\$85,000) | \$2,070,000 |
| Farmers Home Administration (FHA) Loan | 1990 | 2,266,000 | (30,000) | 2,236,000 |
| OWDA Loans: | | | | |
| Ohio Water Development Authority (OWDA) Loan | 1992 | 456,771 | (41,525) | 415,246 |
| Ohio Water Development Authority (OWDA) Loan | 1999 | 1,136,451 | (25,900) | 1,110,551 |
| Total OWDA Loans Payable | | 1,593,222 | (67,425) | 1,525,797 |
| Total Enterprise Long-Term Debt | | <u>\$6,014,222</u> | <u>(\$182,425)</u> | <u>\$5,831,797</u> |
| General Long-Term Debt: | | | | |
| Special Assessment Bond: | | | | |
| (with Governmental Commitment) | | | | |
| Water/Sewer Special Assessment Improvements | 1984 | \$15,000 | (\$15,000) | \$0 |
| Total General Long-Term Debt | | <u>15,000</u> | <u>(15,000)</u> | <u>0</u> |
| Other Long-Term Obligations: | | | | |
| Compensated Absences | | 253,681 | (53,136) | 200,545 |
| Capital Leases | | 143,947 | 163,260 | |
| | | | (92,294) | 214,913 |
| Total Other Long-Term Obligations | | <u>397,628</u> | <u>17,830</u> | <u>415,458</u> |
| Total General Long-Term Debt and Other Long-Term Obligations | | <u>\$412,628</u> | <u>\$2,830</u> | <u>\$415,458</u> |

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. The fund balance of \$36,905 in the General Bond Retirement Fund at December 31, 2002 is reserved for the retirement of outstanding special assessment bonds.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS****December 31, 2002****NOTE 14 - LONG-TERM OBLIGATIONS (Continued)****A. Principal and Interest Requirements**

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2002, follows:

| Years | OPWC Loan | | OWDA Loans | |
|-----------|-----------------|------------|--------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2003 | \$2,920 | \$0 | \$120,947 | \$63,590 |
| 2004 | 2,920 | 0 | 95,939 | 47,189 |
| 2005 | 2,920 | 0 | 97,143 | 42,979 |
| 2006 | 2,920 | 0 | 98,373 | 38,742 |
| 2007 | 2,920 | 0 | 99,631 | 34,478 |
| 2008-2012 | 4,380 | 0 | 497,257 | 107,441 |
| 2013-2017 | 0 | 0 | 346,275 | 37,735 |
| 2018-2022 | 0 | 0 | 170,232 | 4,127 |
| 2023-2030 | 0 | 0 | 0 | 0 |
| Totals | <u>\$18,980</u> | <u>\$0</u> | <u>\$1,525,797</u> | <u>\$376,281</u> |

| Years | General Obligation Bond | | FHA Loan | | Total | |
|-----------|-------------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2003 | \$90,000 | \$99,870 | \$32,000 | \$136,955 | \$245,867 | \$300,415 |
| 2004 | 95,000 | 95,910 | 34,000 | 134,995 | 227,859 | 278,094 |
| 2005 | 100,000 | 91,730 | 36,000 | 132,913 | 236,063 | 267,622 |
| 2006 | 105,000 | 87,330 | 39,000 | 130,708 | 245,293 | 256,780 |
| 2007 | 105,000 | 82,710 | 40,000 | 128,319 | 247,551 | 245,507 |
| 2008-2012 | 615,000 | 334,840 | 244,000 | 601,232 | 1,360,637 | 1,043,513 |
| 2013-2017 | 780,000 | 165,750 | 327,000 | 517,012 | 1,453,275 | 720,497 |
| 2018-2022 | 180,000 | 9,000 | 441,000 | 403,665 | 791,232 | 416,792 |
| 2023-2030 | 0 | 0 | 1,043,000 | 307,295 | 1,043,000 | 307,295 |
| Totals | <u>\$2,070,000</u> | <u>\$967,140</u> | <u>\$2,236,000</u> | <u>\$2,493,094</u> | <u>\$5,850,777</u> | <u>\$3,836,515</u> |

NOTE 15 - CONTRIBUTED CAPITAL

There were no changes to contributed capital during 2002. Contributed capital is as follows:

| | Balance 12/31/2002 |
|------------------|-----------------------|
| Water | \$129,813 |
| Sewer | 1,568,224 |
| Total Enterprise | <u>\$1,698,037</u> |

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Included in the services provided by the City financed primarily by user charges are water treatment and distribution and wastewater collection and treatment. Key financial information for the year ended December 31, 2002 for these enterprise activities is indicated below:

| | Water | Sewer | Sewer Project II | Total |
|--------------------------------|-----------|-------------|---------------------|-------------|
| Operating Revenues | \$472,250 | \$969,868 | \$0 | \$1,442,118 |
| Depreciation | 74,400 | 127,599 | 0 | 201,999 |
| Operating Income | 174,009 | 415,723 | 0 | 589,732 |
| Operating Transfers In | 0 | 39,954 | 0 | 39,954 |
| Operating Transfer Out | (139,507) | (234,538) | (16,000) | (390,045) |
| Net Income (Loss) | (2,138) | 141,083 | (13,186) | 125,759 |
| Property, Plant and Equipment: | | | | |
| Additions | 4,594 | 230,317 | 0 | 234,911 |
| Deletions | (1,999) | (11,163) | 0 | (13,162) |
| Current Capital Contributions | 1,448 | 165,983 | 0 | 167,431 |
| Assets | 1,040,316 | 2,128,591 | 170,279 | 3,339,186 |
| Net Working Capital | 155,952 | 76,827 | 170,279 | 403,058 |
| Bonds and Loans Payable | 564,276 | 5,286,501 | 0 | 5,850,777 |
| Total Equity (Deficit) | 418,555 | (3,225,113) | 170,279 | (2,636,279) |

NOTE 17 - INSURANCE AND RISK MANAGEMENT

The City 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. The City is a participant in the Public Entities Pool of Ohio (the "Pool"). The Pool was established in 1987 and is administered under contract by American Risk Pooling Consultants Inc. to provide a program of property and casualty insurance for its member organizations throughout the State of Ohio.

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool as well as current members are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures for each coverage year. To date, there has been no assessments or refunds, due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants.

NOTE 17 - INSURANCE AND RISK MANAGEMENT (Continued)

The City of East Palestine obtained insurance coverage from the Pool for the years 2000 through 2003 for losses related to general liability, public officials liability, automobile, law enforcement liability, medical malpractice liability, and employee benefits liability.

The City of East Palestine carried commercial (or maintained self-insurance) insurance coverage for the years 2001 and 2002 for all other risks and pays unemployment claims to the State of Ohio as incurred. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Each participant makes an annual "contribution" to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a "surplus contribution" that is used to build the Pool's retained earning account to fund the activities of the Pool. During 2002, the City of East Palestine made contributions to the Pool totaling \$54,802.

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool's maximum net loss on individual risks.

Treaty basis casualty excess of loss contracts in force at December 31, 2002 generally protect the Pool against individual losses over \$250,000.

Losses exceeding \$250,000 are reinsured with American Public Entity Excess Pool (APEEP) in an amount not to exceed \$2,000,000 per claim and \$5,000,000 in aggregate per year.

The Pool is, and ultimately the participants are, contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Worker's Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Worker's Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City had maintained a self-funded health insurance program with claims processed by Professional Risk Management Administrators on behalf of the City. A separate Self Insurance Fund (an internal service fund) was created in 1991 to account for and finance the health insurance program. During fiscal year 2002 the self-funded health insurance program was terminated.

As a result of the termination of the self-insurance program, there is no claims liability reported in the fund at December 31, 2002. Claims liability from previous years were based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

THE CITY OF EAST PALESTINE, OHIO**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS*****December 31, 2002*****NOTE 17 - INSURANCE AND RISK MANAGEMENT (Continued)**

Changes in the Fund's claims liability amount in fiscal years 2001 and 2002 were as follows:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability</u> | <u>Current Year</u> | | | <u>Balance at Fiscal Year End</u> |
|--------------------|---------------------------------------------------|------------------------------------------------|----------------------------|---------|-------------------------------------------|
| | | <u>Claims and Changes in Estimates</u> | <u>Claims Payments</u> | <u></u> | |
| 2001 | \$31,284 | \$265,952 | (\$255,781) | | \$41,455 |
| 2002 | 41,455 | 237,494 | (278,949) | | 0 |

NOTE 18 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. In 2000 the City of East Liverpool filed a law suit with the State Supreme Court involving Columbiana County Local Government Funding. In January of 2001 the Ohio State Supreme Court ruled in favor of East Liverpool. As a result of this ruling, the City of East Palestine is to pay East Liverpool \$78,264 over the next four years.

NOTE 19 - CONSTRUCTION COMMITMENTS

The City had the following contractual commitment at December 31, 2002:

| <u>Project</u> | <u>Remaining Contractual Commitment</u> | <u>Expected Date of Completion</u> |
|----------------------------------------|-------------------------------------------------|----------------------------------------|
| Tennis Court Reconstruction | \$10,810 | 2003 |
| Kemple Bridge Replacement | 125,563 | 2003 |
| Leslie Run Estates Housing Development | 399,993 | 2004 |



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of East Palestine
Columbiana County
82 Garfield Avenue
East Palestine, Ohio 44413-2009

To the members of City Council:

We have audited the accompanying financial statements of the City of East Palestine, Columbiana County, Ohio (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 25, 2003. 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 City'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 City in a separate letter dated June 25, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 operation that we consider to be material weaknesses.

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However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in separate letter dated June 25, 2003.

This report is intended for the information and use of the audit committee, management, City Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 25, 2003



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

**CITY OF EAST PALESTINE
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
JULY 15, 2003**