



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CITY OF EAST PALESTINE
COLUMBIANA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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, (the City) as of and for the year ended December 31, 2001, 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, 2001, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2002 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.

We performed our audit to form an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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Jim Petro
Auditor of State

September 24, 2002

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THE CITY OF EAST PALESTINE, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	Governmental			Proprietary			Fiduciary			Account			Totals
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Internal Service Fund	Trust and Agency Funds	General Fixed Assets	Long-Term Obligations	General Fixed Assets	Long-Term Obligations	(Memorandum Only)	
Assets and Other Debits:													
Assets:													
Cash and Cash Equivalents	\$39,004	\$223,558	\$33,726	\$85,091	\$411,638	\$53,979	\$1,183	\$0	\$0	\$0	\$0	\$848,179	
Investments	71,827	130,143	0	156,696	0	0	0	0	0	0	0	358,666	
Receivables (net of allowance for doubtful accounts):													
Taxes	309,925	162,942	0	0	0	0	0	0	0	0	0	472,867	
Accounts	41,870	984	0	0	70,775	107,887	90	0	0	0	0	221,606	
Interest	9,007	0	0	0	2,787	0	0	0	0	0	0	11,794	
Loans	0	17,164	0	0	0	0	0	0	0	0	0	17,164	
Special Assessments	0	0	1,050	0	0	0	0	0	0	0	0	1,050	
Interfund Loans Receivable	0	0	0	0	0	0	907,022	0	0	0	0	907,022	
Intergovernmental Receivables	4,462	85,215	0	44,532	0	0	0	0	0	0	0	134,209	
Inventory of Supplies at Cost	0	3,225	0	0	20,303	0	0	0	0	0	0	23,528	
Prepaid Items	32,138	0	0	0	3,519	0	0	0	0	0	0	35,657	
Restricted Assets:													
Cash and Cash Equivalents	0	0	0	0	0	0	777,476	0	0	0	0	777,476	
Investments	0	0	0	0	0	0	1,356,404	0	0	0	0	1,356,404	
Fixed Assets (net of accumulated depreciation)	0	0	0	0	2,887,705	0	0	4,184,360	0	0	0	7,072,065	
Other Debits:													
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	0	33,726	0	0	33,726	
Amount to be Provided for													
General Long-Term Obligations	0	0	0	0	0	0	0	0	400,802	0	0	400,802	
Total Assets and Other Debits	\$508,233	\$623,231	\$34,776	\$286,319	\$3,396,727	\$161,866	\$3,042,175	\$4,184,360	\$434,528	\$434,528	\$0	\$12,672,215	

(Continued)

Governmental Proprietary Fiduciary Account
Fund Types Fund Types Fund Types Groups

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Internal Service Fund	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
Liabilities and Other Credits:										
Liabilities:										
Accounts Payable	\$17,993	\$16,994	\$0	\$16,463	\$21,604	\$0	\$0	\$0	\$0	\$73,054
Accrued Wages and Benefits	63,072	14,667	0	0	13,909	0	0	0	0	91,648
Interfund Loans Payable	0	88,300	0	758,722	0	60,000	0	0	0	907,022
Due to Others	0	0	0	0	0	0	1,183	0	0	1,183
Accrued Interest Payable	0	0	0	0	43,678	0	0	0	0	43,678
Claims Payable	0	0	0	0	0	41,455	0	0	0	41,455
Deferred Revenue	186,611	232,475	1,050	44,532	0	0	0	0	0	464,668
General Obligation Note Payable	0	16,000	0	0	0	0	0	0	0	16,000
Compensated Absences Payable	0	11,244	0	0	43,452	0	0	253,681	0	308,377
Capital Leases Payable	0	0	0	0	0	0	0	143,947	0	143,947
General Obligation Bonds Payable	0	0	0	0	2,155,000	0	0	0	0	2,155,000
Special Assessment Bonds Payable	0	0	0	0	0	0	0	15,000	0	15,000
Ohio Water Development Authority Loan Payable	0	0	0	0	1,593,222	0	0	0	0	1,593,222
Ohio Public Works Commission Loan Payable	0	0	0	0	0	0	0	21,900	0	21,900
Farmers Home Administration Loan	0	0	0	0	2,266,000	0	0	0	0	2,266,000
Total Liabilities	267,676	379,680	1,050	819,717	6,136,865	101,455	1,183	0	434,528	8,142,154
Equity and Other Credits:										
Investment in General Fixed Assets	0	0	0	0	0	0	0	4,184,360	0	4,184,360
Contributed Capital	0	0	0	0	1,698,037	0	0	0	0	1,698,037
Retained Earnings:										
Unreserved	0	0	0	0	(4,438,175)	60,411	0	0	0	(4,377,764)
Fund Balances:										
Reserved for Encumbrances	7,277	45,802	0	117,694	0	0	0	0	0	170,773
Reserved for Supplies Inventory	0	3,225	0	0	0	0	0	0	0	3,225
Reserved for Prepaid Items	32,138	0	0	0	0	0	0	0	0	32,138
Reserved for Debt Service	0	0	33,726	0	0	0	0	0	0	33,726
Reserved for Restricted Assets	0	0	0	0	0	0	2,133,880	0	0	2,133,880
Unreserved:										
Undesignated	201,142	194,524	0	(651,092)	0	0	907,112	0	0	651,686
Total Equity and Other Credits	240,557	243,551	33,726	(533,398)	(2,740,138)	60,411	3,040,992	4,184,360	0	4,530,061
Total Liabilities, Equity and Other Credits	\$508,233	\$623,231	\$34,776	\$286,319	\$3,396,727	\$161,866	\$3,042,175	\$4,184,360	\$434,528	\$12,672,215

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, 2001

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	
Revenues:					
Taxes	\$915,986	\$150,090	\$0	\$0	\$1,066,076
Intergovernmental Revenues	243,281	329,918	0	259,553	832,752
Charges for Services	145,173	87,873	0	92,647	325,693
Licenses and Permits	56,715	0	0	0	56,715
Investment Earnings	177,000	0	0	0	177,000
Special Assessments	0	0	20,174	0	20,174
Fines and Forfeitures	13,307	601	0	0	13,908
All Other Revenues	47,092	56,413	0	0	103,505
Total Revenues	<u>1,598,554</u>	<u>624,895</u>	<u>20,174</u>	<u>352,200</u>	<u>2,595,823</u>
Expenditures:					
Current:					
Security of Persons and Property	1,018,171	83,497	0	0	1,101,668
Public Health and Welfare Services	47,026	0	0	0	47,026
Leisure Time Activities	0	224,473	0	0	224,473
Community Environment	0	10,873	0	0	10,873
Transportation	0	356,997	0	0	356,997
General Government	551,610	100,568	0	0	652,178
Capital Outlay	0	44,709	0	644,808	689,517
Debt Service:					
Principal Retirements	0	0	17,920	0	17,920
Interest and Fiscal Charges	0	1,860	4,345	2,691	8,896
Total Expenditures	<u>1,616,807</u>	<u>822,977</u>	<u>22,265</u>	<u>647,499</u>	<u>3,109,548</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(18,253)	(198,082)	(2,091)	(295,299)	(513,725)
Other Financing Sources (Uses):					
Other Financing Sources - Capital Lease	0	0	0	27,409	27,409
Proceeds from Sale of Fixed Assets	600	0	0	0	600
Operating Transfers In	130,000	206,629	2,920	240,386	579,935
Operating Transfers Out	(363,247)	(61,773)	0	0	(425,020)
Total Other Financing Sources (Uses)	<u>(232,647)</u>	<u>144,856</u>	<u>2,920</u>	<u>267,795</u>	<u>182,924</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(250,900)	(53,226)	829	(27,504)	(330,801)
Restated Fund Balance (Deficit) Beginning of Year	491,457	297,600	32,897	(505,894)	316,060
Decrease in Inventory Reserve	0	(823)	0	0	(823)
Fund Balance (Deficit) End of Year	<u>\$240,557</u>	<u>\$243,551</u>	<u>\$33,726</u>	<u>(\$533,398)</u>	<u>(\$15,564)</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, 2001

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$994,385	\$924,766	(\$69,619)	\$148,692	\$150,090	\$1,398
Intergovernmental Revenues	243,243	255,511	12,268	351,039	320,903	(30,136)
Charges for Services	162,000	144,534	(17,466)	90,600	87,330	(3,270)
Licenses and Permits	55,250	54,990	(260)	0	0	0
Investment Earnings	250,000	197,393	(52,607)	0	0	0
Special Assessments	0	0	0	0	0	0
Fines and Forfeitures	16,000	12,722	(3,278)	950	585	(365)
All Other Revenues	25,500	45,948	20,448	46,959	55,901	8,942
Total Revenues	1,746,378	1,635,864	(110,514)	638,240	614,809	(23,431)
Expenditures:						
Current:						
Security of Persons and Property	1,052,340	1,020,281	32,059	92,448	81,001	11,447
Public Health and Welfare Services	54,167	46,441	7,726	0	0	0
Leisure Time Activities	0	0	0	245,219	229,638	15,581
Community Environment	0	0	0	41,624	10,873	30,751
Transportation	0	0	0	386,255	354,333	31,922
General Government	588,472	577,980	10,492	123,446	106,624	16,822
Capital Outlay	0	0	0	77,492	77,492	0
Debt Service:						
Principal Retirement	0	0	0	24,000	24,000	0
Interest and Fiscal Charges	0	0	0	1,860	1,860	0
Total Expenditures	1,694,979	1,644,702	50,277	992,344	885,821	106,523
Excess (Deficiency) of						
Revenues Over (Under) Expenditures	51,399	(8,838)	(60,237)	(354,104)	(271,012)	83,092
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	2,000	600	(1,400)	0	0	0
Proceeds from General Obligation Notes	0	0	0	16,000	16,000	0
Operating Transfers In	130,000	130,000	0	198,429	206,629	8,200
Operating Transfers Out	(372,136)	(363,247)	8,889	(61,773)	(61,773)	0
Advances In	22,982	22,982	0	0	0	0
Advances Out	0	0	0	(36,236)	(36,236)	0
Total Other Financing Sources (Uses)	(217,154)	(209,665)	7,489	116,420	124,620	8,200
Excess (Deficiency) of Revenues and						
Other Financing Sources Over (Under)						
Expenditures and Other Financing Uses	(165,755)	(218,503)	(52,748)	(237,684)	(146,392)	91,292
Fund Balance at Beginning of Year	305,565	305,565	0	345,167	345,167	0
Prior Year Encumbrances	11,461	11,461	0	104,033	104,033	0
Fund Balance at End of Year	\$151,271	\$98,523	(\$52,748)	\$211,516	\$302,808	\$91,292

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, 2001

<i>Debt Service Fund</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$1,143,077	\$1,074,856	(\$68,221)
0	0	0	274,500	259,553	(14,947)	868,782	835,967	(32,815)
0	0	0	100,000	92,647	(7,353)	352,600	324,511	(28,089)
0	0	0	0	0	0	55,250	54,990	(260)
0	0	0	0	0	0	250,000	197,393	(52,607)
22,000	20,174	(1,826)	0	0	0	22,000	20,174	(1,826)
0	0	0	0	0	0	16,950	13,307	(3,643)
0	0	0	0	0	0	72,459	101,849	29,390
22,000	20,174	(1,826)	374,500	352,200	(22,300)	2,781,118	2,623,047	(158,071)
0	0	0	0	0	0	1,144,788	1,101,282	43,506
0	0	0	0	0	0	54,167	46,441	7,726
0	0	0	0	0	0	245,219	229,638	15,581
0	0	0	0	0	0	41,624	10,873	30,751
0	0	0	0	0	0	386,255	354,333	31,922
0	0	0	0	0	0	711,918	684,604	27,314
0	0	0	861,199	800,133	61,066	938,691	877,625	61,066
17,920	17,920	0	0	0	0	41,920	41,920	0
8,000	4,345	3,655	2,691	2,691	0	12,551	8,896	3,655
25,920	22,265	3,655	863,890	802,824	61,066	3,577,133	3,355,612	221,521
(3,920)	(2,091)	1,829	(489,390)	(450,624)	38,766	(796,015)	(732,565)	63,450
0	0	0	0	0	0	2,000	600	(1,400)
0	0	0	0	0	0	16,000	16,000	0
2,920	2,920	0	277,143	240,386	(36,757)	608,492	579,935	(28,557)
0	0	0	0	0	0	(433,909)	(425,020)	8,889
0	0	0	0	0	0	22,982	22,982	0
0	0	0	(87,000)	(87,000)	0	(123,236)	(123,236)	0
2,920	2,920	0	190,143	153,386	(36,757)	92,329	71,261	(21,068)
(1,000)	829	1,829	(299,247)	(297,238)	2,009	(703,686)	(661,304)	42,382
13,859	13,859	0	342,984	342,984	0	1,007,575	1,007,575	0
0	0	0	92,397	92,397	0	207,891	207,891	0
\$12,859	\$14,688	\$1,829	\$136,134	\$138,143	\$2,009	\$511,780	\$554,162	\$42,382

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, 2001

	<i>Proprietary</i>		<i>Non-</i>	<i>Totals</i>	
	<i>Fund Types</i>				<i>Expendable</i>
	<i>Enterprise</i>	<i>Internal</i>			
	<i>Funds</i>	<i>Service</i>	<i>Funds</i>	<i>(Memorandum</i>	
		<i>Fund</i>		<i>Only)</i>	
<u>Operating Revenues:</u>					
Charges for Services	\$1,457,754	\$96,000	\$0	\$1,553,754	
Total Operating Revenues	1,457,754	96,000	0	1,553,754	
<u>Operating Expenses:</u>					
Personal Services	331,834	265,952	0	597,786	
Materials and Supplies	63,262	0	0	63,262	
Contractual Services	79,012	0	0	79,012	
Utilities	137,039	0	0	137,039	
Depreciation	193,544	0	0	193,544	
Total Operating Expenses	804,691	265,952	0	1,070,643	
Operating Income (Loss)	653,063	(169,952)	0	483,111	
<u>Nonoperating Revenues (Expenses):</u>					
Investment Earnings	12,707	0	0	12,707	
Interest and Fiscal Charges	(332,784)	0	0	(332,784)	
Other Nonoperating Revenues	2,821	195,602	2,591	201,014	
Capital Contributions	90,336	0	0	90,336	
Total Nonoperating Revenues (Expenses)	(226,920)	195,602	2,591	(28,727)	
Income Before Operating Transfers	426,143	25,650	2,591	454,384	
<u>Operating Transfers:</u>					
Operating Transfers In	13,949	54,400	3,105	71,454	
Operating Transfers Out	(226,369)	0	0	(226,369)	
Total Operating Transfers	(212,420)	54,400	3,105	(154,915)	
Net Income	213,723	80,050	5,696	299,469	
Retained Earnings (Accumulated Deficit)/					
Fund Balance at Beginning of Year (Restated)	(4,651,898)	(19,639)	3,035,296	(1,636,241)	
Retained Earnings (Accumulated Deficit)/					
Fund Balance at End of Year	(\$4,438,175)	\$60,411	\$3,040,992	(\$1,336,772)	

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, 2001

	<u>Proprietary</u> <u>Fund Types</u>		<u>Non-</u>	<u>Totals</u> <u>(Memorandum</u> <u>Only)</u>
	<u>Enterprise</u> <u>Funds</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Expendable</u> <u>Trust</u> <u>Funds</u>	
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	\$1,467,599	\$184,020	\$2,501	\$1,654,120
Cash Payments for Goods and Services	(283,687)	0	0	(283,687)
Cash Payments to Employees	(342,114)	(255,781)	0	(597,895)
Net Cash Provided (Used) for Operating Activities	841,798	(71,761)	2,501	772,538
<u>Cash Flows from Noncapital Financing Activities:</u>				
Advances In from Other Funds	0	60,000	100,254	160,254
Advances Out to Other Funds	0	0	(60,000)	(60,000)
Transfers In from Other Funds	13,949	54,400	3,105	71,454
Transfers Out to Other Funds	(226,369)	0	0	(226,369)
Net Cash Provided (Used) by Noncapital Financing Activities	(212,420)	114,400	43,359	(54,661)
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition and Construction of Assets	(14,275)	0	0	(14,275)
Principal Paid on General Obligation Bond	(85,000)	0	0	(85,000)
Principal Paid on Farmers Home Administration Loan	(29,000)	0	0	(29,000)
Principal Paid on Ohio Water Development Authority Loans	(92,483)	0	0	(92,483)
Interest Paid on All Debt	(334,404)	0	0	(334,404)
Net Cash Used for Capital and Related Financing Activities	(555,162)	0	0	(555,162)
<u>Cash Flows from Investing Activities:</u>				
Purchase of Investments	0	0	(1,356,404)	(1,356,404)
Receipts of Interest	9,947	0	0	9,947
Net Cash Provided (Used) by Investing Activities	9,947	0	(1,356,404)	(1,346,457)
Net Increase (Decrease) in Cash and Cash Equivalents	84,163	42,639	(1,310,544)	(1,183,742)
Cash and Cash Equivalents at Beginning of Year	327,475	11,340	2,088,020	2,426,835
Cash and Cash Equivalents at End of Year	\$411,638	\$53,979	\$777,476	\$1,243,093
<u>Reconciliation of Cash and Cash Equivalents per the Balance Sheet:</u>				
Cash and Cash Equivalents	\$411,638	\$53,979	\$0	\$465,617
Add: Restricted Cash and Cash Equivalents	0	0	777,476	777,476
Cash and Cash Equivalents at End of Year	\$411,638	\$53,979	\$777,476	\$1,243,093

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, 2001

	<i>Proprietary Fund Types</i>		<i>Non- Expendable</i>	<i>Totals (Memorandum Only)</i>
	<i>Enterprise Funds</i>	<i>Internal Service Fund</i>	<i>Trust Funds</i>	
Reconciliation of Operating Income (Loss) to Net Cash				
Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$653,063	(\$169,952)	\$0	\$483,111
Adjustments to Reconcile Operating Income (Loss) to				
Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	193,544	0	0	193,544
Non-Operating Revenues	2,821	88,020	2,501	93,342
Changes in Assets and Liabilities:				
Decrease in Accounts Receivable	7,024	0	0	7,024
Decrease in Inventory	45	0	0	45
Decrease in Prepaid Items	129	0	0	129
Decrease in Accounts Payable	(2,402)	0	0	(2,402)
Increase in Accrued Wages and Benefits	889	0	0	889
Increase in Claims Payable	0	10,171	0	10,171
Decrease in Compensated Absences	(11,251)	0	0	(11,251)
Decrease in Intergovernmental Payables	(2,064)	0	0	(2,064)
Total Adjustments	<u>188,735</u>	<u>98,191</u>	<u>2,501</u>	<u>289,427</u>
Net Cash Provided (Used) for Operating Activities	<u>\$841,798</u>	<u>(\$71,761)</u>	<u>\$2,501</u>	<u>\$772,538</u>

Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 2001, the Water and Sewer Funds had outstanding liabilities of \$3,705 and \$697, respectively for the purchase of capital assets. The Water and Sewer Funds received \$27,409 and \$62,927, 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, 2001

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, 2001 but which are not intended to finance 2001 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 2001.

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 2001, 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.

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)	(\$250,900)	(\$53,226)	\$829	(\$27,504)
Increase (Decrease):				
Accrued Revenues at December 31, 2001 received during 2002	(178,653)	(33,830)	0	0
Accrued Revenues at December 31, 2000 received during 2001	238,945	23,744	0	0
Accrued Expenditures at December 31, 2001 paid during 2002	81,065	131,205	0	775,185
Accrued Expenditures at December 31, 2000 paid during 2001	(84,687)	(155,392)	0	(922,237)
Fund Debt:				
Note Proceeds	0	16,000	0	0
Note Retirements	0	(24,000)	0	0
2000 Prepays for 2001	19,723	0	0	0
2001 Prepays for 2002	(32,138)	0	0	0
Outstanding Encumbrances	(11,858)	(50,893)	0	(122,682)
Budget Basis	<u>(\$218,503)</u>	<u>(\$146,392)</u>	<u>\$829</u>	<u>(\$297,238)</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 2001. 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, 2001. 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:

<u>Description</u>	<u>Estimated Lives (Years)</u>
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:

<u>Obligation</u>	<u>Fund</u>
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 2001.

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.

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 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/ACCUMULATED DEFICIT

For the fiscal year ended December 31, 2001, the City has implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36 "Recipient Reporting for Certain Shared Nonexchange Revenues". In addition, a restatement was necessary to correct an error in accounting for special assessments receivable in the debt service fund. The implementation of GASB 33 and GASB 36 as well as the correction of the accounting error for special assessments receivable had the following effect on general/special revenue/debt service fund assets, liabilities and fund balance at January 1, 2001:

<u>Fund Type</u>	Total Fund Balance as Reported 12/31/2000	Adjustment Increase	Total Fund Balance as Restated 1/1/2001
Special Revenue	\$274,170	\$23,430	\$297,600

In addition, a correction of errors in accounting for depreciation and machinery and equipment in the amount of fixed assets reported in the enterprise funds required a restatement to the beginning accumulated deficit in the enterprise funds as of January 1, 2001 as follows:

<u>Fund Type</u>	Accumulated Deficit as Reported 12/31/2000	Adjustment Decrease	Accumulated Deficit as Restated 1/1/2001
Enterprise	(\$4,561,744)	(\$90,154)	(\$4,651,898)

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2001 of \$9,762 in the Police Pension Fund, \$73,773 in the Downtown Revitalization Fund (special revenue funds) and \$662,991 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 \$4,934,420 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 \$1,714,752 and the bank balance \$1,739,954. The Federal Deposit Insurance Corporation (FDIC) covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

Investment earnings of \$170,756 earned by other funds were credited to the General Fund as required by state statute.

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

B. Investments

The City's investments at December 31, 2001 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
Pension Obligation Note	\$16,000	\$0	\$16,000
Repurchase Agreement	0	283,838	283,838
Total Categorized Investments	16,000	283,838	299,838
<u>Non-Categorized Investments</u>			
STAR Ohio	N/A	N/A	1,326,135
Total Investments	\$16,000	\$283,838	\$1,625,973

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	\$1,625,655	\$1,715,070
Certificates of Deposit (with maturities of more than 3 months)	1,699,070	(1,699,070)
Investments:		
STAR Ohio	(1,326,135)	1,326,135
Repurchase Agreement	(283,838)	283,838
Per GASB Statement No. 3	\$1,714,752	\$1,625,973

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 2001 were levied after October 1, 2000 on assessed values as of January 1, 2000 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, 2001 was \$5.40 per \$1,000 of assessed value. The assessed value upon which the 2001 tax receipts was based was \$52,017,870. This amount constitutes \$43,458,570 in real property assessed value, \$2,564,720 in public utility assessed value, and \$5,994,580 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, 2001 consisted of taxes, interest, accounts receivable, CDBG loans, special assessments, interfund receivables and intergovernmental receivables.

NOTE 7 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2001:

Fund	Transfer In	Transfer Out
General Fund	\$130,000	\$363,247
Special Revenue Funds:		
Street Construction, Maintenance and Repair Fund	106,350	10,191
Parks and Recreation Fund	31,025	16,452
Community Development Block Grant Fund	21,000	0
Park Community Center Fund	0	11,025
Cemetery Fund	35,000	3,105
Downtown Revitalization Fund	13,254	0
Mini-Loan Escrow Fund	0	21,000
Total Special Revenue Funds	<u>206,629</u>	<u>61,773</u>
Debt Service Fund:		
General Bond Retirement Fund	2,920	0
Capital Projects Fund:		
Capital Improvement Fund	240,386	0
Enterprise Funds:		
Water Fund	0	87,869
Sewer Fund	13,949	138,500
Total Enterprise Funds	<u>13,949</u>	<u>226,369</u>
Internal Service Fund:		
Hospitalization Self Insurance Fund	54,400	0
Nonexpendable Trust Fund:		
Cemetery Trust Fund	3,105	0
Totals	<u>\$651,389</u>	<u>\$651,389</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2001:

Fund	Interfund Loans Receivable	Interfund Loans Payable
Special Revenue Fund:		
Downtown Revitalization Fund	\$0	\$88,300
Capital Projects Fund:		
Capital Improvement Fund	0	758,722
Internal Service Fund:		
Hospitalization Self Insurance Fund	0	60,000
Nonexpendable Trust Fund:		
Electric Trust Fund	907,022	0
Totals	<u>\$907,022</u>	<u>\$907,022</u>

NOTE 9 - FIXED ASSETS

A. General Fixed Assets

Summary by Category of changes in General Fixed Assets:

Category	December 31, 2000	Additions	Deletions	December 31, 2001
Land	\$175,335	\$0	\$0	\$175,335
Buildings	1,476,952	0	0	1,476,952
Improvements Other than Buildings	76,273	0	0	76,273
Machinery and Equipment	2,392,939	88,586	(25,725)	2,455,800
Totals	\$4,121,499	\$88,586	(\$25,725)	\$4,184,360

Schedule of General Fixed Assets at December 31, 2001:

General Fixed Assets	Investment in General Fixed Assets	
Land	\$175,335	General Fund \$570,742
Buildings	1,476,952	Special Revenue Funds 492,365
Improvements Other than Buildings	76,273	Capital Projects Funds 1,288,392
Machinery and Equipment	2,455,800	Proprietary Funds 464,010
Total	\$4,184,360	Donations 1,368,851
		Total \$4,184,360

B. Proprietary Fixed Assets

Summary by Category at December 31, 2001:

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	1,302,916	(435,879)	867,037
Construction in Progress	61,842	0	61,842
Property, Plant and Equipment	\$5,499,726	(\$2,612,021)	\$2,887,705

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

The following information was provided by the PERS of Ohio 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 PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio 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 Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 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 2001 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.25% to fund the pension and 4.3% 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 PERS of Ohio for the years ending December 31, 2001, 2000 and 1999 were \$143,604, \$112,321 and \$132,218, respectively, which were equal to the required contributions for each year.

The PERS of Ohio 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 PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio 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 PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3% of covered payroll which amounted to \$45,572.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio’s latest actuarial review performed as of December 31, 2000. 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 2000 was 7.75%. An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 is \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, 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, 2001, 2000 and 1999 were \$65,228, \$64,774 and \$57,494 for police and \$10,560, \$10,487 and \$10,128 for firefighters, respectively, which were equal to the required contributions for each year.

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 Ohio Revised Code provides that health care costs

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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 2001 covered payroll that was used to fund postemployment health care benefits was \$25,088 representing 7.5% of covered payroll for police and \$3,300 representing 7.5% 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, 2000, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,853 for police and 10,037 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, 2000 were \$106,160,054, which was net of member contributions of \$5,657,431.

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 increased \$27,436 from the beginning year balance of \$226,245 to a year end balance of \$253,681.

At December 31, 2001, the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	23,595	\$198,827
Vacation / Compensatory Time	3,348	54,854
Total	<u>26,943</u>	<u>\$253,681</u>

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

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, 2001:

	Balance January 1, 2001	Issued (Retired)	Balance December 31, 2001
	<u>2001</u>	<u>(Retired)</u>	<u>2001</u>
General Obligation Notes Payable:			
7.75% Pension Obligation Note	\$24,000	(\$24,000)	\$0
7.75% Pension Obligation Note	0	16,000	16,000
Total Notes Payable	<u>\$24,000</u>	<u>(\$8,000)</u>	<u>\$16,000</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, 2001:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2002	\$85,690
2003	70,639
Minimum Lease Payments	<u>156,329</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(12,382)</u>
Present value of minimum lease payments	<u>\$143,947</u>

NOTE 14 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2001 were as follows:

		Balance December 31, 2000	Issued (Retired)	Balance December 31, 2001
Enterprise Funds Long-Term Debt:				
General Obligation Bond:				
Various Purpose Bond	1999	\$2,240,000	(\$85,000)	\$2,155,000
Farmers Home Administration (FHA) Loan	1990	2,295,000	(29,000)	2,266,000
OWDA Loans:				
Ohio Water Development Authority (OWDA) Loan	1992	498,296	(41,525)	456,771
Ohio Water Development Authority (OWDA) Loan	1999	1,187,409	(50,958)	1,136,451
Total OWDA Loans Payable		<u>1,685,705</u>	<u>(92,483)</u>	<u>1,593,222</u>
Total Enterprise Long-Term Debt		<u>\$6,220,705</u>	<u>(\$206,483)</u>	<u>\$6,014,222</u>
General Long-Term Debt:				
Special Assessment Bond:				
(with Governmental Commitment)				
Water/Sewer Special Assessment Improvements Loan Payable:	1984	\$30,000	(\$15,000)	\$15,000
Ohio Public Works Commission (OPWC) Loan		24,820	(2,920)	21,900
Total General Long-Term Debt		<u>54,820</u>	<u>(17,920)</u>	<u>36,900</u>
Other Long-Term Obligations:				
Compensated Absences		226,245	27,436	253,681
Capital Leases		216,119	27,409	
			<u>(99,581)</u>	<u>143,947</u>
Total Other Long-Term Obligations		<u>442,364</u>	<u>(44,736)</u>	<u>397,628</u>
Total General Long-Term Debt and Other Long-Term Obligations		<u>\$497,184</u>	<u>(\$62,656)</u>	<u>\$434,528</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 \$33,726 in the General Bond Retirement Fund at December 31, 2001 is reserved for the retirement of outstanding special assessment bonds.

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, 2001, follows:

Years	Special Assessment Bond		OPWC Loan		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$15,000	\$1,538	\$2,920	\$0	\$93,610	\$57,602
2003	0	0	2,920	0	94,762	53,456
2004	0	0	2,920	0	95,939	49,285
2005	0	0	2,920	0	97,143	45,088
2006	0	0	2,920	0	98,373	40,246
2007-2011	0	0	7,300	0	511,295	136,706
2012-2016	0	0	0	0	380,305	111,167
2017-2021	0	0	0	0	221,795	8,611
2022-2030	0	0	0	0	0	0
Totals	\$15,000	\$1,538	\$21,900	\$0	\$1,593,222	\$502,161

Years	General Obligation Bond		FHA Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$85,000	\$103,610	\$30,000	\$138,792	\$226,530	\$301,542
2003	90,000	99,870	32,000	136,955	219,682	290,281
2004	95,000	95,910	34,000	134,995	227,859	280,190
2005	100,000	91,730	36,000	132,913	236,063	269,731
2006	105,000	87,330	39,000	130,708	245,293	258,284
2007-2011	585,000	362,800	229,000	615,258	1,332,595	1,114,764
2012-2016	745,000	209,500	308,000	535,877	1,433,305	856,544
2017-2021	350,000	26,500	416,000	429,146	987,795	464,257
2022-2030	0	0	1,142,000	377,242	1,142,000	377,242
Totals	\$2,155,000	\$1,077,250	\$2,266,000	\$2,631,886	\$6,051,122	\$4,212,835

NOTE 15 - CONTRIBUTED CAPITAL

There were no changes to contributed capital during 2001. Contributed capital is as follows:

	Balance 12/31/2001
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, 2001 for these enterprise activities is indicated below:

	Water	Sewer	Sewer Project II	Total
Operating Revenues	\$474,391	\$983,363	\$0	\$1,457,754
Depreciation	71,859	121,685	0	193,544
Operating Income	160,951	492,112	0	653,063
Operating Transfers In	0	13,949	0	13,949
Operating Transfer Out	(87,869)	(138,500)	0	(226,369)
Net Income	60,978	140,038	12,707	213,723
Property, Plant and Equipment:				
Additions	32,074	75,898	0	107,972
Current Capital Contributions	27,409	62,927	0	90,336
Assets	1,087,304	2,125,958	183,465	3,396,727
Net Working Capital	130,318	116,048	183,465	429,831
Bonds and Loans Payable	592,176	5,422,046	0	6,014,222
Total Equity (Deficit)	442,593	(3,366,196)	183,465	(2,740,138)

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.

A. Self Insurance

The City maintains 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. As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$10,000 per individual per year up to a maximum of \$1,000,000 per individual per lifetime. Settled claims have not exceeded the commercial coverage limits for the past three fiscal years.

NOTE 17 - INSURANCE AND RISK MANAGEMENT (Continued)

A. Self Insurance (Continued)

All funds of the City from which employee salaries are paid participate in the health insurance program. Payments are made to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and amounts needed to establish a reserve for catastrophic losses. The reserve was a \$60,411 at December 31, 2001. The claims liability of \$41,455 reported in the Self Insurance Fund at December 31, 2001 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to 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 reasonable estimated. Changes in the Fund's claims liability amount in fiscal years 2000 and 2001 were as follows:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2000	\$0	\$140,528	(\$109,244)	\$31,284
2001	31,284	265,952	(255,781)	41,455

B. Other Insurance

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.

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.

NOTE 17 - INSURANCE AND RISK MANAGEMENT (Continued)

B. Other Insurance (Continued)

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 2001, the City of East Palestine made contributions to the Pool totaling \$51,004.

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, 2001 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.

C. Worker’s Compensation

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.

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, 2001:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Sewer Project - Phase IV	\$19,682	March 2002

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CITY OF EAST PALESTINE
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR END DECEMBER 31, 2001

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
<i>Passed through Columbiana County:</i>			
Community Development Block Grant	B-F-99-015-1	14.228	\$ 250,000
<i>Passed Through Ohio Department of Development:</i>			
Community Housing Improvement Program	A-116	14.239	<u>8,050.00</u>
Total U.S. Department of Housing and Urban Development			258,050
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Direct Funding:</i>			
Public Safety Partnership and Community Policing Grant	195CFWX1966	16.710	32,411
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Office of the Governor's Highway Safety Program:</i>			
State and Community Highway Safety	15131PD0	20.600	<u>16,575</u>
Totals			<u>\$ 307,036</u>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF EAST PALESTINE
COLUMBIANA COUNTY
FISCAL YEAR ENDED DECEMBER 31, 2001**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B--MATCHING REQUIREMENTS

Certain Federal programs require that the Government contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Government has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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242 Federal Plaza West
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Youngstown, Ohio 44503
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**REPORT OF INDEPENDENT ACCOUNTANTS 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

We have audited the financial statements of the City of East Palestine as of and for the year ended December 31, 2001, and have issued our report thereon dated September 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 September 24, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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. However, we noted one 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 a separate letter dated September 24, 2002.

This report is intended for the information and use of the audit committee, management, City Council, and federal awarding agencies' and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

September 24, 2002

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of East Palestine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 24, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

September 24, 2002

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

**CITY OF EAST PALESTINE
COLUMBIANA COUNTY
DECEMBER 31, 2001**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 14.218 Community Development Block Grant
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others ¹
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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OFFICE OF THE AUDITOR

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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
NOVEMBER 7, 2002**