



**Auditor of State  
Betty Montgomery**



**CITY OF EAST PALESTINE  
COLUMBIANA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Combined Balance Sheet – All Fund Types and Account Groups .....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types .....	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis)- All Governmental Fund Types .....	8
Combined Statement of Revenues, Expenses, and Changes In Retained Earnings/Fund Balance – All Proprietary Fund Types and Nonexpendable Trust Funds.....	10
Combined Statement of Cash Flows – All Proprietary Fund Types and Nonexpendable Trust Funds.....	11
Notes to the General Purpose Financial Statements.....	13
Schedule of Federal Awards Expenditures.....	39
Notes to the Schedule of Federal Awards Expenditures .....	4
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	41
Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	43
Schedule of Findings.....	45

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of East Palestine (the City) as of and for the year ended December 31, 2003, as listed in the table on 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, 2003, and the results of its operations and the cash flows of its proprietary fund types 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 May 24, 2004 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.

The accompanying federal awards expenditures schedule 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 procedure applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 24, 2004

**This page intentionally left blank.**

**THE CITY OF EAST PALESTINE, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 2003**

	<i>Governmental Fund Types</i>			<i>Proprietary Fund Type</i>	<i>Fiduciary Fund Types</i>	<i>Account Groups</i>		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets		General Long-Term Obligations
<b>Assets and Other Debits:</b>									
<b>Assets:</b>									
Cash and Cash Equivalents	\$1,170	\$70,765	\$733	\$5,812	\$3,696	\$68	\$0	\$0	\$82,244
Investments	58,690	73,721	36,757	291,625	185,436	0	0	0	646,229
Receivables (net of allowance for doubtful accounts):									
Taxes	247,706	168,350	0	0	0	0	0	0	416,056
Accounts	1,284	90	0	0	64,468	0	0	0	65,842
Interest	6,835	0	0	0	0	676	0	0	7,511
Loans	0	17,164	0	0	0	0	0	0	17,164
Special Assessments	0	0	635	0	0	0	0	0	635
Interfund Loans Receivable	0	0	0	0	0	2,707,008	0	0	2,707,008
Intergovernmental Receivables	82,646	627,685	0	41,956	43	0	0	0	752,330
Inventory of Supplies at Cost	0	7,197	0	0	26,531	0	0	0	33,728
Prepaid Items	29,513	1,241	0	0	5,365	0	0	0	36,119
Restricted Assets:									
Cash and Cash Equivalents	0	0	0	0	0	59,095	0	0	59,095
Investments	0	0	0	0	0	292,169	0	0	292,169
Fixed Assets (net of accumulated depreciation)	0	0	0	0	6,537,477	0	4,478,141	0	11,015,618
<b>Other Debits:</b>									
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	37,157	37,157
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	266,780	266,780
<b>Total Assets and Other Debits</b>	<b>\$427,844</b>	<b>\$966,213</b>	<b>\$38,125</b>	<b>\$339,393</b>	<b>\$6,823,016</b>	<b>\$3,059,016</b>	<b>\$4,478,141</b>	<b>\$303,937</b>	<b>\$16,435,685</b>

(Continued)



**THE CITY OF EAST PALESTINE, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 2003**

	<b>Governmental Fund Types</b>				<b>Proprietary Fund Type</b>	<b>Fiduciary Fund Types</b>	<b>Account Groups</b>		<b>Totals (Memorandum Only)</b>
	<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Debt Service Fund</b>	<b>Capital Projects Funds</b>	<b>Enterprise Funds</b>	<b>Trust and Agency Funds</b>	<b>General Fixed Assets</b>	<b>General Long-Term Obligations</b>	
<b>Liabilities and Other Credits:</b>									
<b>Liabilities:</b>									
Accounts Payable	\$46,945	\$11,019	\$0	\$77,831	\$17,324	\$0	\$0	\$0	\$153,119
Accrued Wages and Benefits	90,712	22,877	0	0	31,434	0	0	0	145,023
Intergovernmental Payable	469	0	0	0	72	0	0	0	541
Interfund Loans Payable	610,000	87,046	0	2,009,962	0	0	0	0	2,707,008
Due to Others	0	0	0	0	0	68	0	0	68
Accrued Interest Payable	0	0	0	0	23,354	0	0	0	23,354
Deferred Revenue	210,951	739,567	635	4,600	0	0	0	0	955,753
Compensated Absences Payable	0	0	0	0	111,773	0	0	162,676	274,449
Capital Leases Payable	0	0	0	0	0	0	0	141,261	141,261
General Obligation Bonds Payable	0	0	0	0	4,165,000	0	0	0	4,165,000
Ohio Water Development Authority Loan Payable	0	0	0	0	1,431,614	0	0	0	1,431,614
Ohio Public Works Commission Loan Payable	0	0	0	0	16,060	0	0	0	16,060
<b>Total Liabilities</b>	<b>959,077</b>	<b>860,509</b>	<b>635</b>	<b>2,092,393</b>	<b>5,796,631</b>	<b>68</b>	<b>0</b>	<b>303,937</b>	<b>10,013,250</b>
<b>Equity and Other Credits:</b>									
Investment in General Fixed Assets	0	0	0	0	0	0	4,478,141	0	4,478,141
Contributed Capital	0	0	0	0	1,698,037	0	0	0	1,698,037
Retained Earnings:									
Unreserved	0	0	0	0	(671,652)	0	0	0	(671,652)
Fund Balances:									
Reserved for Encumbrances	1,826	5,003	333	96,329	0	0	0	0	103,491
Reserved for Supplies Inventory	0	7,197	0	0	0	0	0	0	7,197
Reserved for Prepaid Items	29,513	1,241	0	0	0	0	0	0	30,754
Reserved for Debt Service	0	0	37,157	0	0	0	0	0	37,157
Reserved for Restricted Assets	0	0	0	0	0	351,264	0	0	351,264
Unreserved:									
Undesignated	(562,572)	92,263	0	(1,849,329)	0	2,707,684	0	0	388,046
<b>Total Equity and Other Credits</b>	<b>(531,233)</b>	<b>105,704</b>	<b>37,490</b>	<b>(1,753,000)</b>	<b>1,026,385</b>	<b>3,058,948</b>	<b>4,478,141</b>	<b>0</b>	<b>6,422,435</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$427,844</b>	<b>\$966,213</b>	<b>\$38,125</b>	<b>\$339,393</b>	<b>\$6,823,016</b>	<b>\$3,059,016</b>	<b>\$4,478,141</b>	<b>\$303,937</b>	<b>\$16,435,685</b>

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

**This page intentionally left blank.**

**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, 2003**

	<b>Governmental Fund Types</b>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	
<b>Revenues:</b>					
Taxes	\$813,093	\$157,111	\$0	\$0	\$970,204
Intergovernmental Revenues	205,874	441,813	0	228,470	876,157
Charges for Services	144,066	108,613	0	52,932	305,611
Licenses and Permits	63,746	0	0	0	63,746
Investment Earnings	33,834	0	0	0	33,834
Special Assessments	0	0	1,520	0	1,520
Fines and Forfeitures	9,513	1,072	0	0	10,585
All Other Revenues	79,951	40,690	0	0	120,641
Total Revenues	<u>1,350,077</u>	<u>749,299</u>	<u>1,520</u>	<u>281,402</u>	<u>2,382,298</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Security of Persons and Property	1,058,638	32,537	0	0	1,091,175
Public Health and Welfare Services	52,753	0	0	0	52,753
Leisure Time Activities	0	228,140	0	0	228,140
Community Environment	0	320,341	0	0	320,341
Transportation	0	304,739	0	0	304,739
General Government	469,280	57,400	0	0	526,680
Capital Outlay	0	1,500	0	1,590,842	1,592,342
<b>Debt Service:</b>					
Interest and Fiscal Charges	0	0	935	0	935
Total Expenditures	<u>1,580,671</u>	<u>944,657</u>	<u>935</u>	<u>1,590,842</u>	<u>4,117,105</u>
<b>Excess (Deficiency) of</b>					
Revenues Over (Under) Expenditures	(230,594)	(195,358)	585	(1,309,440)	(1,734,807)
<b>Other Financing Sources (Uses):</b>					
Other Financing Sources - Capital Lease	0	0	0	44,574	44,574
Operating Transfers In	163,000	75,000	0	166,526	404,526
Operating Transfers Out	(179,526)	0	0	0	(179,526)
Total Other Financing Sources (Uses)	<u>(16,526)</u>	<u>75,000</u>	<u>0</u>	<u>211,100</u>	<u>269,574</u>
<b>Excess (Deficiency) of Revenues and</b>					
Other Financing Sources Over (Under)					
Expenditures and Other Financing Uses	(247,120)	(120,358)	585	(1,098,340)	(1,465,233)
Fund Balance (Deficit) Beginning of Year	(284,113)	224,271	36,905	(654,660)	(677,597)
Increase in Inventory Reserve	0	1,791	0	0	1,791
Fund Balance (Deficit) End of Year	<u>(\$531,233)</u>	<u>\$105,704</u>	<u>\$37,490</u>	<u>(\$1,753,000)</u>	<u>(\$2,141,039)</u>

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

**THE CITY OF EAST PALESTINE, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$843,603	\$816,948	(\$26,655)	\$152,309	\$157,111	\$4,802
Intergovernmental Revenues	222,811	202,397	(20,414)	519,533	515,567	(3,966)
Charges for Services	154,145	143,336	(10,809)	82,351	84,552	2,201
Licenses and Permits	65,800	63,746	(2,054)	0	0	0
Investment Earnings	55,000	51,509	(3,491)	0	0	0
Special Assessments	0	0	0	0	0	0
Fines and Forfeitures	12,600	9,165	(3,435)	1,250	1,067	(183)
All Other Revenues	69,668	89,465	19,797	48,976	45,918	(3,058)
Total Revenues	<u>1,423,627</u>	<u>1,376,566</u>	<u>(47,061)</u>	<u>804,419</u>	<u>804,215</u>	<u>(204)</u>
<b>Expenditures:</b>						
<b>Current:</b>						
Security of Persons and Property	1,057,283	1,046,895	10,388	37,961	32,537	5,424
Public Health and Welfare Services	51,826	50,923	903	0	0	0
Leisure Time Activities	0	0	0	230,861	229,455	1,406
Community Environment	0	0	0	328,575	320,341	8,234
Transportation	0	0	0	314,624	304,080	10,544
General Government	483,239	481,542	1,697	58,580	57,456	1,124
Capital Outlay	0	0	0	8,331	1,500	6,831
<b>Debt Service:</b>						
Principal Retirement	0	0	0	8,000	8,000	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	<u>1,592,348</u>	<u>1,579,360</u>	<u>12,988</u>	<u>986,932</u>	<u>953,369</u>	<u>33,563</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(168,721)	(202,794)	(34,073)	(182,513)	(149,154)	33,359
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	2,000	0	(2,000)	0	0	0
Operating Transfers In	163,000	163,000	0	105,000	75,000	(30,000)
Operating Transfers Out	(182,418)	(179,526)	2,892	0	0	0
Advances In	200,000	200,000	0	0	0	0
Total Other Financing Sources (Uses)	<u>182,582</u>	<u>183,474</u>	<u>892</u>	<u>105,000</u>	<u>75,000</u>	<u>(30,000)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	13,861	(19,320)	(33,181)	(77,513)	(74,154)	3,359
Fund Balance at Beginning of Year	39,279	39,279	0	165,577	165,577	0
Prior Year Encumbrances	3,512	3,512	0	45,374	45,374	0
Fund Balance at End of Year	<u>\$56,652</u>	<u>\$23,471</u>	<u>(\$33,181)</u>	<u>\$133,438</u>	<u>\$136,797</u>	<u>\$3,359</u>

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

**THE CITY OF EAST PALESTINE, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

<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	\$995,912	\$974,059	(\$21,853)
0	0	0	213,522	211,114	(2,408)	955,866	929,078	(26,788)
0	0	0	72,000	52,932	(19,068)	308,496	280,820	(27,676)
0	0	0	0	0	0	65,800	63,746	(2,054)
0	0	0	0	0	0	55,000	51,509	(3,491)
840	1,520	680	0	0	0	840	1,520	680
0	0	0	0	0	0	13,850	10,232	(3,618)
0	0	0	0	0	0	118,644	135,383	16,739
840	1,520	680	285,522	264,046	(21,476)	2,514,408	2,446,347	(68,061)
0	0	0	0	0	0	1,095,244	1,079,432	15,812
0	0	0	0	0	0	51,826	50,923	903
0	0	0	0	0	0	230,861	229,455	1,406
0	0	0	0	0	0	328,575	320,341	8,234
0	0	0	0	0	0	314,624	304,080	10,544
0	0	0	0	0	0	541,819	538,998	2,821
0	0	0	1,676,004	1,654,090	21,914	1,684,335	1,655,590	28,745
0	0	0	0	0	0	8,000	8,000	0
1,333	935	398	0	0	0	1,333	935	398
1,333	935	398	1,676,004	1,654,090	21,914	4,256,617	4,187,754	68,863
(493)	585	1,078	(1,390,482)	(1,390,044)	438	(1,742,209)	(1,741,407)	802
0	0	0	0	0	0	2,000	0	(2,000)
0	0	0	173,892	166,526	(7,366)	441,892	404,526	(37,366)
0	0	0	0	0	0	(182,418)	(179,526)	2,892
0	0	0	400,000	400,000	0	600,000	600,000	0
0	0	0	573,892	566,526	(7,366)	861,474	825,000	(36,474)
(493)	585	1,078	(816,590)	(823,518)	(6,928)	(880,735)	(916,407)	(35,672)
17,534	17,534	0	267,270	267,270	0	489,660	489,660	0
333	333	0	701,413	701,413	0	750,632	750,632	0
<u>\$17,374</u>	<u>\$18,452</u>	<u>\$1,078</u>	<u>\$152,093</u>	<u>\$145,165</u>	<u>(\$6,928)</u>	<u>\$359,557</u>	<u>\$323,885</u>	<u>(\$35,672)</u>

**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, 2003**

	<u>Proprietary Fund Types</u>	<u>Non- Expendable</u>	<u>Totals</u>
	<u>Enterprise Funds</u>	<u>Trust Funds</u>	<u>(Memorandum Only)</u>
<u>Operating Revenues:</u>			
Charges for Services	\$1,425,676	\$0	\$1,425,676
Total Operating Revenues	<u>1,425,676</u>	<u>0</u>	<u>1,425,676</u>
<u>Operating Expenses:</u>			
Personal Services	532,537	0	532,537
Materials and Supplies	52,561	0	52,561
Contractual Services	72,817	0	72,817
Utilities	154,484	0	154,484
Depreciation	324,635	0	324,635
Total Operating Expenses	<u>1,137,034</u>	<u>0</u>	<u>1,137,034</u>
Operating Income	288,642	0	288,642
<u>Nonoperating Revenues (Expenses):</u>			
Investment Earnings	0	3,531	3,531
Interest and Fiscal Charges	(405,067)	0	(405,067)
Other Nonoperating Revenues	3,186	5,000	8,186
Capital Contributions	46,648	0	46,648
Total Nonoperating Revenues (Expenses)	<u>(355,233)</u>	<u>8,531</u>	<u>(346,702)</u>
Income (Loss) Before Operating Transfers	(66,591)	8,531	(58,060)
<u>Operating Transfers:</u>			
Operating Transfers In	24,013	0	24,013
Operating Transfers Out	(249,013)	0	(249,013)
Total Operating Transfers	<u>(225,000)</u>	<u>0</u>	<u>(225,000)</u>
Net Income (Loss)	(291,591)	8,531	(283,060)
Retained Earnings (Accumulated Deficit)/			
Fund Balance at Beginning of Year (Restated)	<u>(380,061)</u>	<u>3,050,417</u>	<u>2,670,356</u>
Retained Earnings (Accumulated Deficit)/			
Fund Balance at End of Year	<u>(\$671,652)</u>	<u>\$3,058,948</u>	<u>\$2,387,296</u>

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

**THE CITY OF EAST PALESTINE, OHIO**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Types</u>	<u>Non- Expendable Trust Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise Funds</u>		
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,428,979	\$5,000	\$1,433,979
Cash Payments for Goods and Services	(283,243)	0	(283,243)
Cash Payments to Employees	(453,113)	0	(453,113)
Net Cash Provided (Used) for Operating Activities	<u>692,623</u>	<u>5,000</u>	<u>697,623</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Advances Out to Other Funds	0	(600,000)	(600,000)
Transfers In from Other Funds	24,013	0	24,013
Transfers Out to Other Funds	(249,013)	0	(249,013)
Net Cash Used by Noncapital Financing Activities	<u>(225,000)</u>	<u>(600,000)</u>	<u>(825,000)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(3,326)	0	(3,326)
Proceeds from General Bonds	2,235,000	0	2,235,000
Principal Paid on General Obligation Bond	(2,376,000)	0	(2,376,000)
Principal Paid on Ohio Water Development Authority Loans	(94,183)	0	(94,183)
Principal Paid on Ohio Public Works Commission Loan	(2,920)	0	(2,920)
Interest Paid on All Debt	(423,331)	0	(423,331)
Net Cash Used for Capital and Related Financing Activities	<u>(664,760)</u>	<u>0</u>	<u>(664,760)</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	(185,436)	474,197	288,761
Receipts of Interest	137	3,561	3,698
Net Cash Provided by Investing Activities	<u>(185,299)</u>	<u>477,758</u>	<u>292,459</u>
Net Decrease in Cash and Cash Equivalents	(382,436)	(117,242)	(499,678)
Cash and Cash Equivalents at Beginning of Year	<u>386,132</u>	<u>176,337</u>	<u>562,469</u>
Cash and Cash Equivalents at End of Year	<u>\$3,696</u>	<u>\$59,095</u>	<u>\$62,791</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income	\$288,642	\$0	\$288,642
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	324,635	0	324,635
Non-Operating Revenues	3,186	5,000	8,186
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	160	0	160
Increase in Intergovernmental Receivable	(43)	0	(43)
Increase in Inventory	(568)	0	(568)
Increase in Prepaid Items	(922)	0	(922)
Increase in Accounts Payable	640	0	640
Increase in Accrued Wages and Benefits	14,163	0	14,163
Increase in Compensated Absences	65,330	0	65,330
Decrease in Intergovernmental Payables	(2,600)	0	(2,600)
Total Adjustments	<u>403,981</u>	<u>5,000</u>	<u>408,981</u>
Net Cash Provided for Operating Activities	<u>\$692,623</u>	<u>\$5,000</u>	<u>\$697,623</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During fiscal year 2003, Water and Sewer Funds received \$944 and \$45,704, respectively of capital assets contributed from other funds.

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

**This page intentionally left blank.**



**THE CITY OF EAST PALESTINE, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

---

---

**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:

***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:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Basis of Presentation - Fund Accounting** (Continued)

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.

***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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation - Fund Accounting** (Continued)

*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.

Property taxes measurable as of December 31, 2003 but which are not intended to finance 2003 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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting (Continued)**

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.

**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 2003.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process** (Continued)

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 2003, 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.

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)	(\$247,120)	(\$120,358)	\$585	(\$1,098,340)
Increase (Decrease):				
Accrued Revenues at December 31, 2003 received during 2004	(127,520)	(73,722)	0	(37,356)
Accrued Revenues at December 31, 2002 received during 2003	154,009	128,638	0	20,000
Accrued Expenditures at December 31, 2003 paid during 2004	748,126	120,942	0	2,087,793
Accrued Expenditures at December 31, 2002 paid during 2003	(505,685)	(113,126)	0	(1,624,305)
Fund Debt:				
Note Proceeds	0	0	0	0
Note Retirements	0	(8,000)	0	0
2002 Prepays for 2003	24,322	402	0	0
2003 Prepays for 2004	(29,513)	(1,241)	0	0
Outstanding Encumbrances	(35,939)	(7,689)	0	(171,310)
Budget Basis	<u>(\$19,320)</u>	<u>(\$74,154)</u>	<u>\$585</u>	<u>(\$823,518)</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 2003. 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, 2003. 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 2003.

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 - RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS**

A restatement was necessary to correct errors in accounting for enterprise capital assets. The correction of the accounting errors also had the following effect on enterprise retained earnings at January 1, 2003:

Fund Type	Total Fund Balance/ Retained Earnings as Reported 12/31/2002	Adjustment Increase (Decrease)	Total Fund Balance/ Retained Earnings as Restated 1/1/2003
Enterprise	(\$4,334,316)	\$3,954,255	(\$380,061)

**NOTE 3 - COMPLIANCE AND ACCOUNTABILITY**

**Fund Deficits** - The fund deficits at December 31, 2003 of \$531,233 in the General Fund, \$86,040 in the Downtown Revitalization Fund, \$342 in the Food Service Fund (special revenue funds) and \$1,889,231 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 \$908,114 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 \$963,090 and the bank balance \$975,403. The Federal Deposit Insurance Corporation (FDIC) covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

Investment earnings of \$31,568 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, 2003 are summarized below:

<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
<u>Repurchase Agreement</u>	\$86,374	\$86,374
<u>Non-Categorized Investments</u>		
STAR Ohio	N/A	30,333
Total Investments	<u>\$86,374</u>	<u>\$116,707</u>

**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	\$141,339	\$938,398
Certificates of Deposit (with maturities of more than 3 months)	938,398	(938,398)
Investments:		
STAR Ohio	(30,333)	30,333
Repurchase Agreement	<u>(86,374)</u>	<u>86,374</u>
Per GASB Statement No. 3	<u>\$963,030</u>	<u>\$116,707</u>

**NOTE 5 - PROPERTY TAXES**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002 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.

**NOTE 5 - PROPERTY TAXES (Continued)**

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, 2003 was \$5.40 per \$1,000 of assessed value. The assessed value upon which the 2003 tax receipts was based was \$56,617,630. This amount constitutes \$48,522,790 in real property assessed value, \$2,791,330 in public utility assessed value, and \$4,303,510 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, 2003 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 2003:

Fund	Transfer In	Transfer Out
General Fund	\$163,000	\$179,526
Special Revenue Funds:		
Street Construction, Maintenance and Repair Fund	55,000	0
Cemetery Fund	20,000	0
Total Special Revenue Funds	75,000	0
Capital Projects Fund:		
Capital Improvement Fund	166,526	0
Enterprise Funds:		
Water Fund	0	146,301
Sewer Fund	24,013	102,712
Total Enterprise Funds	24,013	249,013
Totals	\$428,539	\$428,539

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of interfund loans receivable and payable for all funds for 2003:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$0	\$610,000
Special Revenue Fund:		
Downtown Revitalization Fund	0	87,046
Capital Projects Fund:		
Capital Improvement Fund	0	2,009,962
Nonexpendable Trust Fund:		
Electric Trust Fund	2,707,008	0
Totals	<u>\$2,707,008</u>	<u>\$2,707,008</u>

**NOTE 9 - FIXED ASSETS**

**A. General Fixed Assets**

Summary by Category of changes in General Fixed Assets:

Category	December 31, 2002	Additions	Deletions	December 31, 2003
Land	\$175,335	\$0	\$0	\$175,335
Buildings	1,453,356	0	0	1,453,356
Improvements Other than Buildings	76,273	50,183	(650)	125,806
Machinery and Equipment	2,723,644	0	0	2,723,644
Totals	<u>\$4,428,608</u>	<u>\$50,183</u>	<u>(\$650)</u>	<u>\$4,478,141</u>

Schedule of General Fixed Assets at December 31, 2003:

General Fixed Assets	Investment in General Fixed Assets	
Land	\$175,335	General Fund \$527,294
Buildings	1,453,356	Special Revenue Funds 589,726
Improvements Other than Buildings	76,273	Capital Projects Funds 1,511,719
Machinery and Equipment	2,773,177	Proprietary Funds 480,551
Total	<u>\$4,478,141</u>	Donations 1,368,851
		Total <u>\$4,478,141</u>

**B. Proprietary Fixed Assets**

Summary by Category at December 31, 2003:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$177,511	\$0	\$177,511
Buildings and Improvements	2,274,108	(1,175,367)	1,098,741
Utility Structures in Services	6,033,727	(1,367,113)	4,666,614
Machinery and Equipment	1,574,639	(980,028)	594,611
Property, Plant and Equipment	<u>\$10,059,985</u>	<u>(\$3,522,508)</u>	<u>\$6,537,477</u>

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

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

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

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

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. Total required employer contributions for all plans (TP, MD and CO) are equal to 100% of employer charges and must be extracted from employer’s records. The City’s contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$149,228, \$153,216 and \$143,604, respectively, which were equal to the required contributions for each year.



**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$55,066.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2002. 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 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

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

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

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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, 2003, 2002 and 2001 were \$57,685, \$60,727 and \$65,228 for police and \$10,982, \$10,867 and \$10,560 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 health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$22,926 representing 7.75% of covered payroll for police and \$3,546 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2002, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police and 10,396 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, 2002 were \$141,028,006, which was net of member contributions of \$12,623,875.

**NOTE 11 - COMPENSATED ABSENCES**

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

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

Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The liability decreased \$37,869 from the beginning year balance of \$200,545 to a year end balance of \$162,676.

**NOTE 11 - COMPENSATED ABSENCES (Continued)**

At December 31, 2003, 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	17,889	\$123,729
Vacation / Compensatory Time	<u>2,504</u>	<u>38,947</u>
Total	<u>20,393</u>	<u>\$162,676</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, 2003:

	<u>Balance</u> <u>January 1,</u> <u>2003</u>	<u>Issued</u> <u>(Retired)</u>	<u>Balance</u> <u>December 31,</u> <u>2003</u>
General Obligation Notes Payable:			
7.75% Pension Obligation Note	\$8,000	(\$8,000)	\$0

**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, 2003:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2004	\$56,757
2005	51,574
2006	37,168
2007	9,633
Minimum Lease Payments	<u>145,499</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(4,238)</u>
Present value of minimum lease payments	<u><u>\$141,261</u></u>

**NOTE 14 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 2003 were as follows:

		Balance December 31, 2002	Issued (Retired)	Balance December 31, 2003
<b>Enterprise Funds Long-Term Debt:</b>				
General Obligation Bond:				
Various Purpose Bond	1999	\$2,070,000	(\$90,000)	\$1,980,000
Sewerage System Refunding Bond	2003	0	2,235,000 (50,000)	2,185,000
Total General Obligation Bonds		<u>2,070,000</u>	<u>2,095,000</u>	<u>4,165,000</u>
Farmers Home Administration (FHA) Loan	1990	2,236,000	(2,236,000)	0
OPWC Loans:				
Ohio Public Works Commission (OPWC) Loan	2000	18,980	(2,920)	16,060
OWDA Loans:				
Ohio Water Development Authority (OWDA) Loan	1992	415,246	(41,525)	373,721
Ohio Water Development Authority (OWDA) Loan	1999	1,110,551	(52,658)	1,057,893
Total OWDA Loans Payable		<u>1,525,797</u>	<u>(94,183)</u>	<u>1,431,614</u>
Total Enterprise Long-Term Debt		<u>\$5,850,777</u>	<u>(\$238,103)</u>	<u>\$5,612,674</u>
<b>General Long-Term Debt:</b>				
<b>Other Long-Term Obligations:</b>				
Compensated Absences		200,545	(37,869)	162,676
Capital Leases		214,913	44,577	
			(118,229)	141,261
Total Other Long-Term Obligations		<u>415,458</u>	<u>(111,521)</u>	<u>303,937</u>
Total General Long-Term Debt and Other Long-Term Obligations		<u>\$415,458</u>	<u>(\$111,521)</u>	<u>\$303,937</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.

## 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, 2003, follows:

Years	OPWC Loan		OWDA Loans	
	Principal	Interest	Principal	Interest
2004	\$2,920	\$0	\$122,703	\$60,330
2005	2,920	0	97,143	44,483
2006	2,920	0	98,373	40,246
2007	2,920	0	99,631	35,982
2008	2,920	0	100,916	31,691
2009-2013	1,460	0	483,355	93,811
2014-2018	0	0	280,017	28,031
2019-2023	0	0	149,476	1,242
2024-2031	0	0	0	0
Totals	\$16,060	\$0	\$1,431,614	\$335,816

Years	General Obligation Bond		Total	
	Principal	Interest	Principal	Interest
2004	\$135,000	\$201,652	\$260,623	\$261,982
2005	145,000	205,460	\$245,063	\$249,943
2006	150,000	199,760	\$251,293	\$240,006
2007	150,000	193,678	\$252,551	\$229,660
2008	160,000	187,595	\$263,836	\$219,286
2009-2013	925,000	818,975	\$1,409,815	\$912,786
2014-2018	1,170,000	572,850	\$1,450,017	\$600,881
2019-2023	450,000	350,400	\$599,476	\$351,642
2024-2031	880,000	267,590	880,000	267,590
Totals	\$4,165,000	\$2,997,960	\$5,612,674	\$3,333,776

**B. Defeased Debt**

In February 2003, the City defeased \$2,236,000 of FHA Loans for Sewer Improvements through the issuance of \$2,235,000 of General Obligation Bonds for Sewer System Improvement. The net proceeds of the 2003 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$2,204,000 at December 31, 2003, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding. The refunding was undertaken to reduce total debt service payments over the next 26 years by \$363,369 and resulted in an economic gain of \$205,434. The acquisition price exceeded the net carrying amount of the old debt by \$30,054.

**NOTE 15 - CONTRIBUTED CAPITAL**

There were no changes to contributed capital during 2003. Contributed capital is as follows:

	Balance 12/31/2003
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, 2003 for these enterprise activities is indicated below:

	Water	Sewer	Total
Operating Revenues	\$453,297	\$972,379	\$1,425,676
Depreciation	71,756	252,879	324,635
Operating Income	131,199	157,443	288,642
Operating Transfers In	0	24,013	24,013
Operating Transfer Out	(146,301)	(102,712)	(249,013)
Net Income (Loss)	(50,514)	(241,077)	(291,591)
Property, Plant and Equipment:			
Additions	2,683	47,291	49,974
Current Capital Contributions	944	45,704	46,648
Assets	946,947	5,876,069	6,823,016
Net Working Capital	128,740	84,615	213,355
Bonds and Loans Payable	514,161	5,098,513	5,612,674
Total Equity (Deficit)	366,275	660,110	1,026,385

**NOTE 17 - INSURANCE AND RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City is a participant in the Public Entities Pool of Ohio (the "Pool"). The Pool was established in 1987 and is administered under contract by American Risk Pooling Consultants Inc. to provide a program of property and casualty insurance for its member organizations throughout the State of Ohio.

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

**NOTE 17 - INSURANCE AND RISK MANAGEMENT (Continued)**

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

The City of East Palestine carried commercial (or maintained self-insurance) insurance coverage for the years 2002 and 2003 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 2003, the City of East Palestine made contributions to the Pool totaling \$70,755.

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, 2003 generally protect the Pool against individual losses over \$250,000.

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

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

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

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

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

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



**NOTE 17 - INSURANCE AND RISK MANAGEMENT (Continued)**

Changes in the Fund's claims liability amount in fiscal years 2002 and 2003 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2002	\$41,455	\$237,494	(\$278,949)	\$0
2003	\$0	0	0	0

**NOTE 18 - CONTINGENCIES**

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**NOTE 19 - CONSTRUCTION COMMITMENTS**

The City had the following contractual commitment at December 31, 2003:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Park Washroom/ Vending Area Project	\$36,000	10/31/2004
Phase V - Clarifiers - Sewer Plant	1,405,832	2004

**This page intentionally left blank.**

CITY OF EAST PALESTINE  
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2003

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<i>Passed Through Ohio Department of Development:</i>			
Home Investment Partnership Program	A-C-01-116-2	14.239	<u>\$319,874</u>
Total U.S. Department of Housing and Urban Development			\$319,874
<b>Total</b>			<b><u><u>\$319,874</u></u></b>

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

**CITY OF EAST PALESTINE  
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

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



**Auditor of State  
Betty Montgomery**

**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

To the City Council:

We have audited the accompanying financial statements of the City of East Palestine (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated May 24, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters 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 May 24, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 24, 2004



## Auditor of State Betty Montgomery

### REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS 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

#### Compliance

We have audited the compliance of the City of East Palestine (the City) 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, 2003. 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 each major federal program is the responsibility of the 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, 2003.

#### 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 24, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 24, 2003



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

**CITY OF EAST PALESTINE  
COLUMBIANA COUNTY  
DECEMBER 31, 2003**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
--

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Home Investment Partnership Program (HOME) (CFDA# 14.239)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

None

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF EAST PALESTINE**

**COLUMBIANA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 17, 2005**