

CITY OF EAST PALESTINE
ANNUAL REPORT
YEAR ENDED DECEMBER 31, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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Honorable Mayor and Members of City Council
City of East Palestine
82 Garfield Avenue
East Palestine, Ohio 44413-2009

We have reviewed the Independent Auditor's Report of the City of East Palestine, Columbiana County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2000 through December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of East Palestine is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

June 29, 2001

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**CITY OF EAST PALESTINE
COLUMBIANA COUNTY**

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of City Council
City of East Palestine
East Palestine, Ohio 44413

We have audited the accompanying general-purpose financial statements of City of East Palestine as of and for the year ended December 31, 2000. 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 generally accepted auditing standards and the standards applicable to financial audits contained in and *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 City of East Palestine as of December 31, 2000, 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 generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 8, 2001, on our consideration of City of East Palestine's internal control structure 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.

Our audit was made for the purpose of forming an opinion on the financial statements of the City, taken as a whole. The Schedules of General Fixed Assets, and Combining Statement of Changes in Assets and Liabilities – Agency Funds are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. The information in those schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 8, 2001

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THE CITY OF EAST PALESTINE, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2000

	<i>Governmental Fund Types</i>				<i>Proprietary Fund Types</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	Internal Service Fund	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
<u>Assets and Other Debits:</u>										
Assets:										
Cash and Cash Equivalents	\$200,596	\$349,394	\$32,897	\$266,876	\$327,475	\$11,340	\$1,282	\$0	\$0	\$1,189,860
Investments	116,880	99,274	0	149,467	0	0	0	0	0	365,621
Receivables (net of allowance for doubtful accounts):										
Taxes	332,417	160,370	0	0	0	0	0	0	0	492,787
Accounts	38,696	846	0	0	77,799	305	0	0	0	117,646
Interest	23,033	0	0	0	27	0	0	0	0	23,060
Loans	0	17,164	0	0	0	0	0	0	0	17,164
Special Assessments	0	0	579	0	0	0	0	0	0	579
Interfund Loans Receivable	22,982	0	0	0	0	0	947,276	0	0	970,258
Intergovernmental Receivables	3,543	0	0	0	0	0	0	0	0	3,543
Inventory of Supplies at Cost	0	4,048	0	0	20,348	0	0	0	0	24,396
Prepaid Items	19,723	0	0	0	3,648	0	0	0	0	23,371
Restricted Assets:										
Cash and Cash Equivalents	0	0	0	0	0	0	2,088,020	0	0	2,088,020
Fixed Assets (net of accumulated depreciation)	0	0	0	0	3,063,431	0	0	4,121,499	0	7,184,930
Other Debits:										
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	0	32,897	32,897
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	0	464,287	464,287
Total Assets and Other Debits	\$757,870	\$631,096	\$33,476	\$416,343	\$3,492,728	\$11,645	\$3,036,578	\$4,121,499	\$497,184	\$12,998,419

(Continued)

	<i>Governmental Fund Types</i>				<i>Proprietary Fund Types</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	Internal Service Fund	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
Liabilities and Other Credits:										
Liabilities:										
Accounts Payable	\$23,636	\$16,642	\$0	\$76,515	\$20,645	\$0	\$0	\$0	\$0	\$137,438
Accrued Wages and Benefits	60,922	14,214	0	0	13,020	0	0	0	0	88,156
Interfund Loans Payable	0	124,536	0	845,722	0	0	0	0	0	970,258
Intergovernmental Payables	129	0	0	0	2,064	0	0	0	0	2,193
Due to Others	0	0	0	0	0	0	1,282	0	0	1,282
Accrued Interest Payable	0	0	0	0	45,298	0	0	0	0	45,298
Claims Payable	0	0	0	0	0	31,284	0	0	0	31,284
Deferred Revenue	181,726	177,534	579	0	0	0	0	0	0	359,839
General Obligation Note Payable	0	24,000	0	0	0	0	0	0	0	24,000
Compensated Absences Payable	0	0	0	0	54,703	0	0	0	226,245	280,948
Capital Leases Payable	0	0	0	0	0	0	0	0	216,119	216,119
General Obligation Bonds Payable	0	0	0	0	2,240,000	0	0	0	0	2,240,000
Special Assessment Bonds Payable	0	0	0	0	0	0	0	0	30,000	30,000
Ohio Water Development Authority Loan Payable	0	0	0	0	1,685,705	0	0	0	0	1,685,705
Ohio Public Works Commission Loan Payable	0	0	0	0	0	0	0	0	24,820	24,820
Farmers Home Administration Loan	0	0	0	0	2,295,000	0	0	0	0	2,295,000
Total Liabilities	266,413	356,926	579	922,237	6,356,435	31,284	1,282	0	497,184	8,432,340
Equity and Other Credits:										
Investment in General Fixed Assets	0	0	0	0	0	0	0	4,121,499	0	4,121,499
Contributed Capital	0	0	0	0	1,698,037	0	0	0	0	1,698,037
Retained Earnings:										
Unreserved	0	0	0	0	(4,561,744)	(19,639)	0	0	0	(4,581,383)
Fund Balances:										
Reserved for Encumbrances	7,134	100,978	0	33,884	0	0	0	0	0	141,996
Reserved for Supplies Inventory	0	4,048	0	0	0	0	0	0	0	4,048
Reserved for Prepaid Items	19,723	0	0	0	0	0	0	0	0	19,723
Reserved for Debt Service	0	0	32,897	0	0	0	0	0	0	32,897
Reserved for Restricted Assets	0	0	0	0	0	0	2,088,020	0	0	2,088,020
Unreserved:										
Undesignated	464,600	169,144	0	(539,778)	0	0	947,276	0	0	1,041,242
Total Equity and Other Credits	491,457	274,170	32,897	(505,894)	(2,863,707)	(19,639)	3,035,296	4,121,499	0	4,566,079
Total Liabilities, Equity and Other Credits	\$757,870	\$631,096	\$33,476	\$416,343	\$3,492,728	\$11,645	\$3,036,578	\$4,121,499	\$497,184	\$12,998,419

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, 2000

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	
Revenues:					
Taxes	\$960,122	\$149,841	\$0	\$0	\$1,109,963
Intergovernmental Revenues	356,500	466,396	0	18,396	841,292
Charges for Services	148,035	69,979	0	99,087	317,101
Licenses and Permits	54,886	0	0	0	54,886
Investment Earnings	279,761	2,884	0	0	282,645
Special Assessments	0	0	21,644	0	21,644
Fines and Forfeitures	13,492	3,939	0	0	17,431
All Other Revenues	49,129	17,939	0	913	67,981
Total Revenues	<u>1,861,925</u>	<u>710,978</u>	<u>21,644</u>	<u>118,396</u>	<u>2,712,943</u>
Expenditures:					
Current:					
Security of Persons and Property	1,022,747	73,534	0	0	1,096,281
Public Health and Welfare Services	46,940	0	0	0	46,940
Leisure Time Activities	0	190,318	0	0	190,318
Transportation	0	331,200	0	0	331,200
General Government	556,942	157,168	0	0	714,110
Capital Outlay	0	11,508	0	819,698	831,206
Debt Service:					
Principal Retirements	0	0	17,920	0	17,920
Interest and Fiscal Charges	0	2,480	5,693	0	8,173
Total Expenditures	<u>1,626,629</u>	<u>766,208</u>	<u>23,613</u>	<u>819,698</u>	<u>3,236,148</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	235,296	(55,230)	(1,969)	(701,302)	(523,205)
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	0	0	0	61,424	61,424
Operating Transfers In	77,000	286,928	0	225,915	589,843
Operating Transfers Out	(328,157)	(117,969)	0	(14,000)	(460,126)
Total Other Financing Sources (Uses)	<u>(251,157)</u>	<u>168,959</u>	<u>0</u>	<u>273,339</u>	<u>191,141</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(15,861)	113,729	(1,969)	(427,963)	(332,064)
Fund Balance (Deficit) Beginning of Year	507,318	160,566	34,866	(77,931)	624,819
Decrease in Inventory Reserve	0	(125)	0	0	(125)
Fund Balance (Deficit) End of Year	<u>\$491,457</u>	<u>\$274,170</u>	<u>\$32,897</u>	<u>(\$505,894)</u>	<u>\$292,630</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, 2000

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$932,090	\$958,457	\$26,367	\$127,360	\$149,841	\$22,481
Intergovernmental Revenues	309,901	321,953	12,052	483,978	466,396	(17,582)
Charges for Services	162,000	151,369	(10,631)	88,470	69,579	(18,891)
Licenses and Permits	54,200	53,518	(682)	0	0	0
Investment Earnings	250,000	272,853	22,853	2,100	3,156	1,056
Special Assessments	0	0	0	0	0	0
Fines and Forfeitures	20,000	13,975	(6,025)	4,055	4,024	(31)
All Other Revenues	34,890	47,741	12,851	28,350	17,518	(10,832)
Total Revenues	<u>1,763,081</u>	<u>1,819,866</u>	<u>56,785</u>	<u>734,313</u>	<u>710,514</u>	<u>(23,799)</u>
Expenditures:						
Current:						
Security of Persons and Property	1,026,962	1,016,708	10,254	86,385	74,623	11,762
Public Health and Welfare Services	49,106	47,104	2,002	0	0	0
Leisure Time Activities	0	0	0	217,404	197,702	19,702
Community Environment	0	0	0	188,769	187,740	1,029
Transportation	0	0	0	356,145	329,083	27,062
General Government	568,521	563,926	4,595	200,525	177,176	23,349
Capital Outlay	0	0	0	89,000	89,000	0
Debt Service:						
Principal Retirement	0	0	0	32,000	32,000	0
Interest and Fiscal Charges	0	0	0	2,500	2,480	20
Total Expenditures	<u>1,644,589</u>	<u>1,627,738</u>	<u>16,851</u>	<u>1,172,728</u>	<u>1,089,804</u>	<u>82,924</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	118,492	192,128	73,636	(438,415)	(379,290)	59,125
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	1,000	0	(1,000)	0	0	0
Proceeds from General Obligation Notes	0	0	0	0	24,000	24,000
Operating Transfers In	108,000	77,000	(31,000)	283,354	286,928	3,574
Operating Transfers Out	(331,454)	(328,157)	3,297	(118,245)	(117,969)	276
Advances In	0	0	0	0	22,982	22,982
Advances Out	(22,982)	(22,982)	0	(7,254)	(7,254)	0
Total Other Financing Sources (Uses)	<u>(245,436)</u>	<u>(274,139)</u>	<u>(28,703)</u>	<u>157,855</u>	<u>208,687</u>	<u>50,832</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(126,944)	(82,011)	44,933	(280,560)	(170,603)	109,957
Fund Balance at Beginning of Year	369,653	369,653	0	280,819	280,819	0
Prior Year Encumbrances	17,923	17,923	0	234,419	234,419	0
Fund Balance at End of Year	<u>\$260,632</u>	<u>\$305,565</u>	<u>\$44,933</u>	<u>\$234,678</u>	<u>\$344,635</u>	<u>\$109,957</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, 2000

<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	\$1,059,450	\$1,108,298	\$48,848
0	0	0	40,896	18,396	(22,500)	834,775	806,745	(28,030)
0	0	0	94,500	99,087	4,587	344,970	320,035	(24,935)
0	0	0	0	0	0	54,200	53,518	(682)
0	0	0	0	0	0	252,100	276,009	23,909
22,000	21,644	(356)	0	0	0	22,000	21,644	(356)
0	0	0	0	0	0	24,055	17,999	(6,056)
0	0	0	913	913	0	64,153	66,172	2,019
22,000	21,644	(356)	136,309	118,396	(17,913)	2,655,703	2,670,420	14,717
0	0	0	0	0	0	1,113,347	1,091,331	22,016
0	0	0	0	0	0	49,106	47,104	2,002
0	0	0	0	0	0	217,404	197,702	19,702
0	0	0	0	0	0	188,769	187,740	1,029
0	0	0	0	0	0	356,145	329,083	27,062
0	0	0	0	0	0	769,046	741,102	27,944
0	0	0	1,004,285	886,619	117,666	1,093,285	975,619	117,666
17,920	17,920	0	0	0	0	49,920	49,920	0
7,280	5,693	1,587	0	0	0	9,780	8,173	1,607
25,200	23,613	1,587	1,004,285	886,619	117,666	3,846,802	3,627,774	219,028
(3,200)	(1,969)	1,231	(867,976)	(768,223)	99,753	(1,191,099)	(957,354)	233,745
0	0	0	0	61,424	61,424	1,000	61,424	60,424
0	0	0	0	0	0	0	24,000	24,000
0	0	0	257,539	225,915	(31,624)	648,893	589,843	(59,050)
(7,800)	0	7,800	(14,000)	(14,000)	0	(471,499)	(460,126)	11,373
0	0	0	275,000	275,000	0	275,000	297,982	22,982
0	0	0	(154,424)	(154,424)	0	(184,660)	(184,660)	0
(7,800)	0	7,800	364,115	393,915	29,800	268,734	328,463	59,729
(11,000)	(1,969)	9,031	(503,861)	(374,308)	129,553	(922,365)	(628,891)	293,474
15,828	15,828	0	438,814	438,814	0	1,105,114	1,105,114	0
0	0	0	278,478	278,478	0	530,820	530,820	0
\$4,828	\$13,859	\$9,031	\$213,431	\$342,984	\$129,553	\$713,569	\$1,007,043	\$293,474

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	<i>Enterprise Funds</i>	<i>Internal Service Fund</i>	<i>Non- Expendable Trust Funds</i>	<i>Totals (Memorandum Only)</i>
<u>Operating Revenues:</u>				
Charges for Services	\$1,312,795	\$94,024	\$0	\$1,406,819
Other Operating Revenues	0	340	0	340
Total Operating Revenues	<u>1,312,795</u>	<u>94,364</u>	<u>0</u>	<u>1,407,159</u>
<u>Operating Expenses:</u>				
Personal Services	326,447	140,528	0	466,975
Materials and Supplies	70,269	0	0	70,269
Contractual Services	27,598	0	0	27,598
Utilities	132,370	0	0	132,370
Depreciation	157,766	0	0	157,766
Total Operating Expenses	<u>714,450</u>	<u>140,528</u>	<u>0</u>	<u>854,978</u>
Operating Income (Loss)	598,345	(46,164)	0	552,181
<u>Nonoperating Revenues (Expenses):</u>				
Investment Earnings	7,564	0	0	7,564
Interest and Fiscal Charges	(344,202)	0	0	(344,202)
Other Nonoperating Revenues	2,918	5,320	1,277	9,515
Loss on Disposal of Fixed Asset	(11,200)	0	0	(11,200)
Total Nonoperating Revenues (Expenses)	<u>(344,920)</u>	<u>5,320</u>	<u>1,277</u>	<u>(338,323)</u>
Income (Loss) Before Operating Transfers	253,425	(40,844)	1,277	213,858
<u>Operating Transfers:</u>				
Operating Transfers In	27,275	0	2,283	29,558
Operating Transfers Out	(159,275)	0	0	(159,275)
Total Operating Transfers	<u>(132,000)</u>	<u>0</u>	<u>2,283</u>	<u>(129,717)</u>
Net Income (Loss)	121,425	(40,844)	3,560	84,141
Retained Earnings (Accumulated Deficit)/				
Fund Balance at Beginning of Year	<u>(4,683,169)</u>	<u>21,205</u>	<u>3,031,736</u>	<u>(1,630,228)</u>
Retained Earnings (Accumulated Deficit)/				
Fund Balance at End of Year	<u>(\$4,561,744)</u>	<u>(\$19,639)</u>	<u>\$3,035,296</u>	<u>(\$1,546,087)</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, 2000

	<i>Enterprise Funds</i>	<i>Internal Service Fund</i>	<i>Non- Expendable Trust Funds</i>	<i>Totals (Memorandum Only)</i>
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	\$1,287,587	\$94,364	\$1,277	\$1,383,228
Cash Payments for Goods and Services	(276,643)	0	0	(276,643)
Cash Payments to Employees	(322,454)	(109,244)	0	(431,698)
Other Operating Revenue	0	5,107	0	5,107
Net Cash Provided (Used) for Operating Activities	<u>688,490</u>	<u>(9,773)</u>	<u>1,277</u>	<u>679,994</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Advances In from Other Funds	0	0	161,678	161,678
Transfers In from Other Funds	27,275	0	2,283	29,558
Transfers Out to Other Funds	(159,275)	0	(275,000)	(434,275)
Net Cash Used for Noncapital Financing Activities	<u>(132,000)</u>	<u>0</u>	<u>(111,039)</u>	<u>(243,039)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition and Construction of Assets	(20,651)	0	0	(20,651)
Principal Paid on General Obligation Bond	(80,000)	0	0	(80,000)
Principal Paid on Farmers Home Administration Loan	(26,000)	0	0	(26,000)
Principal Paid on Ohio Water Development Authority Loans	(91,380)	0	0	(91,380)
Interest Paid on All Debt	(347,000)	0	0	(347,000)
Net Cash Used for Capital and Related Financing Activities	<u>(565,031)</u>	<u>0</u>	<u>0</u>	<u>(565,031)</u>
<u>Cash Flows from Investing Activities:</u>				
Receipts of Interest	7,599	0	0	7,599
Net Cash Provided by Investing Activities	<u>7,599</u>	<u>0</u>	<u>0</u>	<u>7,599</u>
Net Decrease in Cash and Cash Equivalents	(942)	(9,773)	(109,762)	(120,477)
Cash and Cash Equivalents at Beginning of Year	<u>328,417</u>	<u>21,113</u>	<u>2,197,782</u>	<u>2,547,312</u>
Cash and Cash Equivalents at End of Year	<u>\$327,475</u>	<u>\$11,340</u>	<u>\$2,088,020</u>	<u>\$2,426,835</u>
<u>Reconciliation of Cash and Cash Equivalents per the Balance Sheet:</u>				
Cash and Cash Equivalents	\$327,475	\$11,340	\$0	\$338,815
Add: Restricted Cash and Cash Equivalents	0	0	2,088,020	2,088,020
Cash and Cash Equivalents at End of Year	<u>\$327,475</u>	<u>\$11,340</u>	<u>\$2,088,020</u>	<u>\$2,426,835</u>

THE CITY OF EAST PALESTINE, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	<i>Enterprise Funds</i>	<i>Internal Service Fund</i>	<i>Non- Expendable Trust Funds</i>	<i>Totals (Memorandum Only)</i>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$598,345	(\$46,164)	\$0	\$552,181
Adjustments to Reconcile Operating Income (Loss) to				
Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	157,766	0	0	157,766
Non-Operating Revenues	2,918	5,107	1,277	9,302
Changes in Assets and Liabilities:				
Decrease in Accounts Receivable	9,332	0	0	9,332
Decrease in Intergovernmental Receivable	216	0	0	216
Increase in Inventory	(18,959)	0	0	(18,959)
Increase in Prepaid Items	(3,057)	0	0	(3,057)
Decrease in Accounts Payable	(26,402)	0	0	(26,402)
Increase in Accrued Wages and Benefits	1,016	0	0	1,016
Increase in Claims Payable	2,925	0	0	2,925
Increase in Compensated Absences	0	31,284	0	31,284
Decrease in Deferred Revenue	(37,674)	0	0	(37,674)
Increase in Intergovernmental Payables	2,064	0	0	2,064
Total Adjustments	<u>90,145</u>	<u>36,391</u>	<u>1,277</u>	<u>127,813</u>
Net Cash Provided (Used) for Operating Activities	<u>\$688,490</u>	<u>(\$9,773)</u>	<u>\$1,277</u>	<u>\$679,994</u>

Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 2000, the Sewer Fund had outstanding liabilities of \$1,041 for the purchase of certain capital assets. The Sewer Fund received \$89,889 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, 2000

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 agency funds 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, 2000 but which are not intended to finance 2000 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

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 2000.

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 2000, 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.

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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)	(\$15,861)	\$113,729	(\$1,969)	(\$427,963)
Increase (Decrease):				
Accrued Revenues at December 31, 2000 received during 2001	(238,945)	(846)	0	0
Accrued Revenues at December 31, 1999 received during 2000	173,904	382	0	0
Accrued Expenditures at December 31, 2000 paid during 2001	84,687	155,392	0	922,237
Accrued Expenditures at December 31, 1999 paid during 2000	(77,504)	(327,227)	0	(776,185)
Fund Debt:				
Note Proceeds	0	24,000	0	0
Note Retirements	0	(32,000)	0	0
1999 Prepays for 2000	22,892	0	0	0
2000 Prepays for 2001	(19,723)	0	0	0
Outstanding Encumbrances	(11,461)	(104,033)	0	(92,397)
Budget Basis	(\$82,011)	(\$170,603)	(\$1,969)	(\$374,308)

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 3, "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 2000. 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, 2000. See Note 3, "Cash, Cash Equivalents and Investments."

G. Inventory

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

H. Fixed Assets and Depreciation

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

1. Property, Plant and Equipment - General Governmental Purposes

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

2. Property, Plant and Equipment - Proprietary Funds

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

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

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

I. Long-Term Obligations

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

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

J. Compensated Absences

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

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

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

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

K. Pensions

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

L. Interfund Transactions

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

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. There were no residual equity transfers performed in 2000.

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.

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NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2000 of \$15,455 in the Police Pension Fund, \$22,982 in the Community Development Block Grant Fund, \$81,356 in the Downtown Revitalization Fund (special revenue funds), \$598,297 in the Capital Improvement Fund (capital projects fund) and \$19,639 in the Self Insurance Fund (internal service fund) arise from the recognition of expenditures/expenses on the modified accrual/accrual basis which are greater than expenditures/expenses recognized on the budgetary/cash basis. The accumulated deficit of \$4,984,304 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 3 - 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 two 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;

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- 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).

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 110% 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.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

At year end the carrying amount of the City's deposits was \$709,859 and the bank balance \$726,621. The Federal Deposit Insurance Corporation (FDIC) covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

Investment earnings of \$254,170 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The City's investments at December 31, 2000 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
Pension Obligation Note	\$24,000	\$0	\$24,000
Repurchase Agreement	0	385,202	385,202
Total Categorized Investments	24,000	385,202	409,202
<u>Non-Categorized Investments</u>			
STAR Ohio	N/A	N/A	2,524,440
Total Investments	\$24,000	\$385,202	\$2,933,642

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	\$3,277,880	\$365,621
Certificates of Deposit (with maturities of more than 3 months)	341,621	(341,621)
Investments:		
STAR Ohio	(2,524,440)	2,524,440
Repurchase Agreement	(385,202)	385,202
Per GASB Statement No. 3	\$709,859	\$2,933,642

NOTE 4 - 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 2000 were levied after October 1, 1999 on assessed values as of January 1, 1999 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, 2000 was \$5.40 per \$1,000 of assessed value. The assessed value upon which the 2000 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 5 - RECEIVABLES

Receivables at December 31, 2000 consisted of taxes, interest, accounts receivable, CDBG loans, special assessments, interfund receivables and intergovernmental receivables.

NOTE 6 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2000:

Fund	Transfer In	Transfer Out
General Fund	\$77,000	\$328,157
Special Revenue Funds:		
Street Construction, Maintenance and Repair Fund	102,350	7,500
Parks and Recreation Fund	30,000	18,462
Community Development Block Grant Fund	38,324	0
Revolving Loan Fund	0	89,724
Cemetery Fund	20,000	2,283
Downtown Revitalization Fund	7,254	0
Building Facade Fund	89,000	0
Total Special Revenue Funds	<u>286,928</u>	<u>117,969</u>
Capital Projects Fund:		
Capital Improvement Fund	225,915	14,000
Enterprise Funds:		
Water Fund	0	64,775
Sewer Fund	13,275	94,500
Sewer Project II Fund	14,000	0
Total Enterprise Funds	<u>27,275</u>	<u>159,275</u>
Nonexpendable Trust Fund:		
Cemetery Trust Fund	2,283	0
Totals	<u>\$619,401</u>	<u>\$619,401</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2000:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$22,982	\$0
Special Revenue Funds:		
Community Development Block Grant Fund	0	22,982
Downtown Revitalization Fund	0	101,554
Total Special Revenue Funds	<u>0</u>	<u>124,536</u>
Capital Projects Fund:		
Capital Improvement Fund	0	845,722
Non-Expendable Trust Fund:		
Electric Trust Fund	947,276	0
Totals	<u>\$970,258</u>	<u>\$970,258</u>

NOTE 8 - FIXED ASSETS

A. General Fixed Assets

Summary by Category of changes in General Fixed Assets:

Category	December 31, 1999	Additions	Deletions	December 31, 2000
Land	\$175,335	\$0	\$0	\$175,335
Buildings	1,568,059	246,376	(337,483)	1,476,952
Improvements Other than Buildings	74,823	1,450	0	76,273
Machinery and Equipment	2,279,676	122,196	(8,933)	2,392,939
Totals	\$4,097,893	\$370,022	(\$346,416)	\$4,121,499

Schedule of General Fixed Assets at December 31, 2000:

General Fixed Assets	Investment in General Fixed Assets
Land	General Fund \$574,583
Buildings	Special Revenue Funds 459,636
Improvements Other than Buildings	Capital Projects Funds 1,254,419
Machinery and Equipment	Proprietary Funds 464,010
Total	Donations 1,368,851
\$4,121,499	Total \$4,121,499

B. Proprietary Fixed Assets

Summary by Category at December 31, 2000:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$177,511	\$0	\$177,511
Buildings and Improvements	2,274,108	(1,055,258)	1,218,850
Utility Structures in Services	1,683,349	(1,040,429)	642,920
Machinery and Equipment	1,282,516	(258,366)	1,024,150
Property, Plant and Equipment	\$5,417,484	(\$2,354,053)	\$3,063,431

NOTE 9 – 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 Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20% for state and local government divisions. The 2000 employer contribution rate for local government employer units was 10.84%, of covered payroll, 6.54% to fund the pension and 4.3% to fund health care. The 1999 and 1998 employer contribution rates were 13.55%. 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, 2000, 1999 and 1998 were \$112,321, \$132,218 and \$124,934, 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 2000 employer contribution rate (identified above) that was used to fund health care for the year 2000 was 4.3% of covered payroll which amounted to \$44,800.

NOTE 9 – 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, 1999. 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 1999 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 401,339. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 1999 is \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 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, 2000, 1999 and 1998 were \$64,774, \$57,494 and \$47,569 for police and \$10,487, \$10,128 and \$9,775 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 9 – 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 2000 covered payroll that was used to fund postemployment health care benefits was \$24,083 representing 7.25% of covered payroll for police and \$3,168 representing 7.25% 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, 1999, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,467 for police and 9,807 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, 1999 were \$95,004,633, which was net of member contributions of \$5,518,098.

NOTE 10 - 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 \$7,032 from the beginning year balance of \$233,277 to a year end balance of \$226,245.

At December 31, 2000, 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	23,747	\$186,480
Vacation / Compensatory Time	2,601	39,765
Total	<u>26,348</u>	<u>\$226,245</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 11 - 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, 2000:

	Balance January 1, 2000	Issued (Retired)	Balance December 31, 2000
	<u>2000</u>	<u>(Retired)</u>	<u>2000</u>
General Obligation Notes Payable:			
7.75% Pension Obligation Note	\$32,000	(\$32,000)	\$0
7.75% Pension Obligation Note	<u>0</u>	<u>24,000</u>	<u>24,000</u>
Total Notes Payable	<u><u>\$32,000</u></u>	<u><u>(\$8,000)</u></u>	<u><u>\$24,000</u></u>

NOTE 12 - CAPITAL LEASES

The City leases an ambulance, ambulette, jet cleaner, backhoe, copier, computer equipment, two lawn mowers, three trucks, and four police vehicles 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, 2000:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2001	\$102,251
2002	76,025
2003	<u>60,975</u>
Minimum Lease Payments	239,251
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(23,132)</u>
Present value of minimum lease payments	<u><u>\$216,119</u></u>

NOTE 13 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2000 were as follows:

		Balance December 31, 1999	Issued (Retired)	Balance December 31, 2000
Enterprise Funds Long-Term Debt:				
General Obligation Bond:				
Various Purpose Bond	1999	\$2,320,000	(\$80,000)	\$2,240,000
Farmers Home Administration (FHA) Loan	1990	2,321,000	(26,000)	2,295,000
Ohio Water Development Authority (OWDA) Loan	1992	539,821	(41,525)	498,296
Ohio Water Development Authority (OWDA) Loan	1999	1,237,264	(49,855)	1,187,409
Total OWDA Loans Payable		<u>1,777,085</u>	<u>(91,380)</u>	<u>1,685,705</u>
Total Enterprise Long-Term Debt		<u>\$6,418,085</u>	<u>(\$197,380)</u>	<u>\$6,220,705</u>
General Long-Term Debt:				
Special Assessment Bond:				
(with Governmental Commitment)				
Water/Sewer Special Assessment Improvements Loan Payable:	1984	\$45,000	(\$15,000)	\$30,000
Ohio Public Works Commission (OPWC) Loan		<u>27,740</u>	<u>(2,920)</u>	<u>24,820</u>
Total General Long-Term Debt		<u>72,740</u>	<u>(17,920)</u>	<u>54,820</u>
Other Long-Term Obligations:				
Compensated Absences		233,277	(7,032)	226,245
Capital Leases		<u>303,866</u>	<u>(87,747)</u>	<u>216,119</u>
Total Other Long-Term Obligations		<u>537,143</u>	<u>(94,779)</u>	<u>442,364</u>
Total General Long-Term Debt and Other Long-Term Obligations		<u>\$609,883</u>	<u>(\$112,699)</u>	<u>\$497,184</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 \$32,897 in the Bond Retirement Fund at December 31, 2000 is reserved for the retirement of outstanding special assessment bonds.

NOTE 13 - 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, 2000, follows:

Years	Special Assessment Bond		OPWC Loan		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2001	\$15,000	\$3,075	\$2,920	\$0	\$92,482	\$61,724
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
2006-2010	0	0	10,220	0	504,723	161,544
2011-2015	0	0	0	0	414,498	63,683
2016-2020	0	0	0	0	292,548	18,261
2021-2030	0	0	0	0	0	0
Totals	<u>\$30,000</u>	<u>\$4,613</u>	<u>\$24,820</u>	<u>\$0</u>	<u>\$1,685,705</u>	<u>\$510,643</u>

Years	General Obligation Bond		FHA Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2001	\$85,000	\$107,350	\$29,000	\$140,569	\$224,402	\$312,718
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
2006-2010	560,000	388,880	217,000	628,548	1,291,943	1,178,972
2011-2015	710,000	238,500	290,000	553,639	1,414,498	855,822
2016-2020	515,000	52,250	392,000	453,128	1,199,548	523,639
2021-2030	0	0	1,235,000	452,882	1,235,000	452,882
Totals	<u>\$2,240,000</u>	<u>\$1,178,100</u>	<u>\$2,295,000</u>	<u>\$2,772,421</u>	<u>\$6,275,525</u>	<u>\$4,465,777</u>

NOTE 14 - CONTRIBUTED CAPITAL

A schedule of changes in contributed capital is presented below:

	Water Fund	Sewer Fund	Totals
Balance at Beginning of Year	\$129,813	\$1,478,335	\$1,608,148
Additions:			
Contributions by Other Funds	<u>0</u>	<u>89,889</u>	<u>89,889</u>
Balance at End of Year	<u>\$129,813</u>	<u>\$1,568,224</u>	<u>\$1,698,037</u>

NOTE 15 - 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, 2000 for these enterprise activities is indicated below:

	Water	Sewer	Sewer Project II	Total
Operating Revenues	\$429,235	\$883,560	\$0	\$1,312,795
Depreciation	67,270	90,496	0	157,766
Operating Income	148,274	450,071	0	598,345
Operating Transfers In	0	13,275	14,000	27,275
Operating Transfer Out	(64,775)	(94,500)	0	(159,275)
Net Income	30,160	69,701	21,564	121,425
Property, Plant and Equipment:				
Additions	15,642	95,939	0	111,581
Deletions	(27,600)	(3,977)	0	(31,577)
Current Capital Contributions	0	89,889	0	89,889
Assets	1,082,420	2,239,550	170,758	3,492,728
Net Working Capital	82,420	95,092	170,758	348,270
Bonds and Loans Payable	639,056	5,581,649	0	6,220,705
Total Equity (Deficit)	381,615	(3,416,080)	170,758	(2,863,707)

NOTE 16 - 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 16 - 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 deficit of \$19,639 at December 31, 2000. The claims liability of \$31,284 reported in the Self Insurance Fund at December 31, 2000 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 1999 and 2000 were as follows:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
1999	\$0	\$162,791	(\$162,791)	\$0
2000	0	140,528	(109,244)	31,284

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 16 - 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 1998 and 1999 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 2000, the City of East Palestine made contributions to the Pool totaling \$51,203.

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, 2000 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 \$1,750,000 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 17 - 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 \$97,830 over the next two years.

NOTE 18 - CONSTRUCTION COMMITMENTS

The City had the following contractual commitment at December 31, 2000:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Street Maintenance Building	\$57,818	February 2001

THE CITY OF EAST PALESTINE, OHIO
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	Balance December 31, 1999	Additions	Deductions	Balance December 31, 2000
<u>Mayor's Court</u>				
Assets:				
Cash and Cash Equivalents	\$1,236	\$0	(\$486)	\$750
Total Assets	<u>\$1,236</u>	<u>\$0</u>	<u>(\$486)</u>	<u>\$750</u>
Liabilities:				
Due to Others	\$1,236	\$0	(\$486)	\$750
Total Liabilities	<u>\$1,236</u>	<u>\$0</u>	<u>(\$486)</u>	<u>\$750</u>
<u>Food Service</u>				
Assets:				
Cash and Cash Equivalents	\$277	\$7,211	(\$6,956)	\$532
Total Assets	<u>\$277</u>	<u>\$7,211</u>	<u>(\$6,956)</u>	<u>\$532</u>
Liabilities:				
Due to Others	\$277	\$7,211	(\$6,956)	\$532
Total Liabilities	<u>\$277</u>	<u>\$7,211</u>	<u>(\$6,956)</u>	<u>\$532</u>
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and Cash Equivalents	\$1,513	\$7,211	(\$7,442)	\$1,282
Total Assets	<u>\$1,513</u>	<u>\$7,211</u>	<u>(\$7,442)</u>	<u>\$1,282</u>
Liabilities:				
Due to Others	\$1,513	\$7,211	(\$7,442)	\$1,282
Total Liabilities	<u>\$1,513</u>	<u>\$7,211</u>	<u>(\$7,442)</u>	<u>\$1,282</u>

THE CITY OF EAST PALESTINE, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY SOURCE
DECEMBER 31, 2000

General Fixed Assets:

Land	\$175,335
Buildings	1,476,952
Improvements Other Than Buildings	76,273
Machinery and Equipment	<u>2,392,939</u>
Total General Fixed Assets	<u><u>\$4,121,499</u></u>

Investment in General Fixed Assets:

General Fund	\$574,583
Special Revenue Funds	459,636
Capital Projects Funds	1,254,419
Proprietary Funds	464,010
Donated	<u>1,368,851</u>
Total Investment in General Fixed Assets	<u><u>\$4,121,499</u></u>

THE CITY OF EAST PALESTINE, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY CATEGORY
DECEMBER 31, 2000

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
<u>General Government:</u>					
Administration	\$52,164	\$1,173,154	\$0	\$56,057	\$1,281,375
Finance	0	0	0	54,985	54,985
Total	<u>52,164</u>	<u>1,173,154</u>	<u>0</u>	<u>111,042</u>	<u>1,336,360</u>
<u>Security of Persons and Property:</u>					
Police	21,878	0	0	320,282	342,160
Fire	63,357	216,576	396	1,099,157	1,379,486
Total	<u>85,235</u>	<u>216,576</u>	<u>396</u>	<u>1,419,439</u>	<u>1,721,646</u>
<u>Transportation:</u>					
Street	2,362	2,260	10,270	409,871	424,763
<u>Public Health and Welfare:</u>					
Health	0	0	0	2,053	2,053
<u>Leisure Time Activities:</u>					
Parks	35,574	84,962	65,607	450,534	636,677
Total General Fixed Assets	<u>\$175,335</u>	<u>\$1,476,952</u>	<u>\$76,273</u>	<u>\$2,392,939</u>	<u>\$4,121,499</u>

THE CITY OF EAST PALESTINE, OHIO
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2000

<u>Function and Activity</u>	<u>December 31,</u> <u>1999</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2000</u>
<u>General Government:</u>					
Administration	\$1,278,880	(\$405)	\$2,900	\$0	\$1,281,375
Finance	51,827	0	3,496	(338)	54,985
Total	<u>1,330,707</u>	<u>(405)</u>	<u>6,396</u>	<u>(338)</u>	<u>1,336,360</u>
<u>Security of Persons and Property:</u>					
Police	329,265	(4,590)	17,485	0	342,160
Fire	1,362,207	0	20,779	(3,500)	1,379,486
Total	<u>1,691,472</u>	<u>(4,590)</u>	<u>38,264</u>	<u>(3,500)</u>	<u>1,721,646</u>
<u>Transportation:</u>					
Street	495,790	4,995	266,556	(342,578)	424,763
<u>Public Health and Welfare:</u>					
Health	2,053	0	0	0	2,053
<u>Leisure Time Activities:</u>					
Parks	577,871	0	58,806	0	636,677
Total General Fixed Assets	<u>\$4,097,893</u>	<u>\$0</u>	<u>\$370,022</u>	<u>(\$346,416)</u>	<u>\$4,121,499</u>

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of City Council
City of East Palestine
East Palestine, Ohio 44413

We have audited the general-purpose financial statements of City of East Palestine as of and for the year ended December 31, 2000, and have issued our report thereon dated June 8, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 of East Palestine's general-purpose 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 have noted certain immaterial instances of noncompliance which have been reported to management in a separate letter dated June 8, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of East Palestine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose 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 we have reported to management in a separate letter dated June 8, 2001.

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

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 8, 2001

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A – 133 SECTION .505**

**FINANCIAL CONDITION
CITY OF EAST PALESTINE
DECEMBER 31, 2000**

1. AUDITOR'S RESULTS

<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 non-compliance at the financial statement level (GAGAS)?	NO

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

NONE



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
JULY 24, 2001**