

CITY OF EAST PALESTINE
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



Mary Taylor, CPA
Auditor of State

City Council
City of East Palestine
82 Garfield Ave
P. O. Box 231
East Palestine, Ohio 44413

We have reviewed the *Independent Auditors' Report* of the City of East Palestine, Columbiana County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 28, 2007

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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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palestine, Columbiana County as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palestine, Columbiana County as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, CDBG Fund, FEMA Fund and Electric Trust Fund for the year then ended in conformity generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 6, 2007, on our consideration of City of East Palestine's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to opine of the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards expenditures present additional information and is required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 6, 2007

CITY OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2006***

Unaudited

The discussion and analysis of the City of East Palestine's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- ❑ In total, net assets increased \$232,685. Net assets of governmental activities increased \$14,151, which represents less than a 1% change from 2005. Net assets of business-type activities increased \$218,534 or 15% from 2005.
- ❑ General revenues accounted for \$1,345,574 in revenue or 30% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,128,962, 70% of total revenues of \$4,474,536.
- ❑ The City had \$3,007,601 in expenses related to governmental activities; only \$1,426,239 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,345,574 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,434,012 in revenues and \$1,666,097 in expenditures. The general fund's fund balance decreased from a deficit of \$550,976 to a deficit of \$646,448.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the City's overall financial status.

The Fund Financial Statements – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2006***

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) are one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water and wastewater services are reported as business-type activities.

Fund Financial Statements

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole.

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

CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the Water and Wastewater funds, both of which are considered major funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net assets for 2006 compared to 2005.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$1,596,400	\$3,274,871	\$311,970	\$235,205	\$1,908,370	\$3,510,076
Capital assets, Net	4,519,148	3,709,581	9,237,129	9,408,744	13,756,277	13,118,325
Total assets	6,115,548	6,984,452	9,549,099	9,643,949	15,664,647	16,628,401
Long-term debt outstanding	1,459,167	1,247,724	7,716,244	7,841,661	9,175,411	9,089,385
Other liabilities	509,081	1,603,579	160,689	348,656	669,770	1,952,235
Total liabilities	1,968,248	2,851,303	7,876,933	8,190,317	9,845,181	11,041,620
Net assets						
Invested in capital assets, net of related debt	3,276,367	2,685,502	1,591,081	1,918,058	4,867,448	4,603,560
Restricted	3,509,889	3,905,468	0	0	3,509,889	3,905,468
Unrestricted	(2,638,956)	(2,457,821)	81,085	(464,426)	(2,557,871)	(2,922,247)
Total net assets	\$4,147,300	\$4,133,149	\$1,672,166	\$1,453,632	\$5,819,466	\$5,586,781

CITY OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2006

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 compared to 2005:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for Services and Sales	\$336,808	\$383,956	\$1,589,393	\$1,354,442	\$1,926,201	\$1,738,398
Operating Grants and Contributions	631,891	1,758,075	0	141,581	631,891	1,899,656
Capital Grants and Contributions	457,540	739,877	113,330	67,000	570,870	806,877
Total Program revenues	1,426,239	2,881,908	1,702,723	1,563,023	3,128,962	4,444,931
General revenues:						
Property Taxes	341,703	352,252	0	0	341,703	352,252
Income Taxes	837,140	865,543	0	0	837,140	865,543
Other Local Taxes	530	506	0	0	530	506
Intergovernmental Revenues, Unrestricted	30,662	327,164	0	0	30,662	327,164
Investment Earnings	22,706	22,957	0	0	22,706	22,957
Miscellaneous	112,833	134,016	0	0	112,833	134,016
Total General revenues	1,345,574	1,702,438	0	0	1,345,574	1,702,438
Total revenues	2,771,813	4,584,346	1,702,723	1,563,023	4,474,536	6,147,369
Program Expenses						
Security of Persons and Property	1,383,951	2,109,466	0	0	1,383,951	2,109,466
Leisure Time Activities	261,737	241,259	0	0	261,737	241,259
Community Environment	310,050	374,872	0	0	310,050	374,872
Public Health and Welfare	45,727	45,069	0	0	45,727	45,069
Transportation	338,540	364,062	0	0	338,540	364,062
General Government	666,596	719,460	0	0	666,596	719,460
Interest and Fiscal Charges	1,000	10,739	0	0	1,000	10,739
Water	0	0	440,065	441,212	440,065	441,212
Wastewater	0	0	794,185	1,057,916	794,185	1,057,916
Total expenses	3,007,601	3,864,927	1,234,250	1,499,128	4,241,851	5,364,055
Change in Net Assets before transfers	(235,788)	719,419	468,473	63,895	232,685	783,314
Transfers	249,939	(7,958)	(249,939)	7,958	0	0
Total Change in Net Assets	14,151	711,461	218,534	71,853	232,685	783,314
Beginning Net Assets-Restated	4,133,149	3,421,688	1,453,632	1,381,779	5,586,781	4,803,467
Ending Net Assets	\$4,147,300	\$4,133,149	\$1,672,166	\$1,453,632	\$5,819,466	\$5,586,781

Governmental Activities

Overall, net assets of the City's governmental activities remained very stable, increasing 1% from the previous year. Decreases in FEMA monies resulted in significant decreases in both operating grants and contributions and security of persons and property.

The City receives an income tax, which is based on 1% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City.

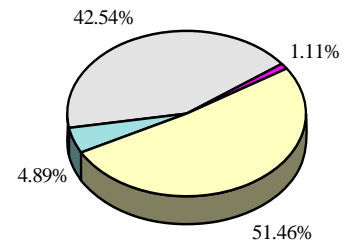
CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

Income taxes and property taxes made up 30% and 12% respectively of revenues for governmental activities for the City in fiscal year 2006. The City's reliance upon tax revenues is demonstrated by the following graph indicating 43% of total revenues from general tax revenues:

Revenue Sources	2006	Percent of Total
General Tax Revenues	\$1,179,373	42.54%
Intergovernmental Revenues, Unrestricted	30,662	1.11%
Program Revenues	1,426,239	51.46%
General Other	135,539	4.89%
Total Revenue	<u>\$2,771,813</u>	<u>100.00%</u>



Business-Type Activities

Net assets of the business-type activities increased \$218,534. This increase was mainly the result of capital contributions received from the City's Governmental Activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$683,791, which is a decrease from last year's balance of \$900,089. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2005 and 2006:

	Fund Balance/Deficit December 31, 2006	Fund Balance/Deficit December 31, 2005	Increase (Decrease)
General	(\$646,448)	(\$550,976)	(\$95,472)
CDBG	81,193	7,894	73,299
FEMA	0	(120)	120
Electric Trust	3,119,393	3,119,168	225
Capital Improvement	(2,005,286)	(1,986,018)	(19,268)
Capital Replacement	4,179	98,288	(94,109)
Other Governmental	130,760	211,853	(81,093)
Total	<u>\$683,791</u>	<u>\$900,089</u>	<u>(\$216,298)</u>

CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

General Fund – The City's General Fund balance decrease is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2006 Revenues	2005 Revenues	Increase (Decrease)
Taxes	\$962,351	\$976,392	(\$14,041)
Intergovernmental Revenue	176,883	317,472	(140,589)
Charges for Services	168,119	203,183	(35,064)
Licenses and Permits	75,895	78,856	(2,961)
Investment Earnings	21,656	22,415	(759)
Fines and Forfeitures	8,546	10,173	(1,627)
All Other Revenue	20,562	17,636	2,926
Total	\$1,434,012	\$1,626,127	(\$192,115)

General Fund revenues in 2006 decreased approximately 12% compared to revenues in year 2005. Intergovernmental revenues decreased due to decreases in estate taxes received. Decreases in revenues for ambulance runs contributed to the decrease in charges for services.

	2006 Expenditures	2005 Expenditures	Increase (Decrease)
Security of Persons and Property	\$997,804	\$1,037,820	(\$40,016)
Public Health and Welfare	45,727	45,069	658
General Government	599,601	560,311	39,290
Capital Outlay	22,965	0	22,965
Total	\$1,666,097	\$1,643,200	\$22,897

General Fund expenditures in 2006 remained very stable, increasing \$22,897 or 1% from 2005.

CDBG Fund – The City's CDBG Fund balance increased significantly due to increases in grant monies received.

FEMA Fund – The City's FEMA Fund balance remained very stable, increasing less than 1%.

Electric Trust Fund – The City's Electric Trust Fund balance remained very stable, increasing approximately 1%.

Capital Improvement Fund - The Capital Improvement Fund balance decreased approximately 1%. This fund reported capital contributions to the wastewater fund for expenditures related to the phase five sanitary sewer project as well as loan proceeds for a bridge project.

CITY OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2006***

Unaudited

Capital Replacement Fund - The Capital Replacement Fund balance decreased significantly during 2006. This was mainly due to decreases in homeland security grants.

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

During the course of fiscal year 2006 the City amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,496,307 did not significantly change from original budget estimates of \$1,540,505. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006 the City had \$13,756,277 net of accumulated depreciation invested in land, buildings, improvements, equipment and vehicles. Of this total, \$4,519,148 was related to governmental activities and \$9,237,129 to the business-type activities. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$298,749	\$298,749	\$0
Construction In Progress	248,432	170,763	77,669
Buildings	1,850,488	1,850,488	0
Improvements Other than Buildings	124,205	124,205	0
Machinery and Equipment	2,633,817	2,238,289	395,528
Infrastructure	1,540,727	988,032	552,695
Less: Accumulated Depreciation	(2,177,270)	(1,960,945)	(216,325)
Totals	<u>\$4,519,148</u>	<u>\$3,709,581</u>	<u>\$809,567</u>

Increases in machinery and equipment can mostly be attributed to the acquisition of a fire truck while increases in infrastructure was the result of improvement to North Market street.

CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2006	2005	
Land	\$177,511	\$177,511	\$0
Construction in Progress	0	3,025,800	(3,025,800)
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	450,250	450,250	0
Machinery and Equipment	1,292,778	1,293,461	(683)
Infrastructure	9,883,619	6,665,424	3,218,195
Less: Accumulated Depreciation	(4,540,236)	(4,176,909)	(363,327)
Totals	\$9,237,129	\$9,408,744	(\$171,615)

The primary increase occurred in infrastructure, which can be attributed to the phase five sanitary sewer construction project. Additional information on the City's capital assets can be found in Note 8.

Debt

At December 31, 2006, the City had \$3,735,000 in general obligation bonds outstanding, \$150,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2006 and 2005:

	2006	2005
Governmental Activities:		
Ohio Public Works Commission Loan	\$16,588	\$5,143
West Street Bridge Project Loan	265,000	265,000
ODOT Street Improvement Loan	666,914	635,337
Capital Leases	294,279	118,599
Compensated Absences	216,386	223,645
Total Governmental Activities	1,459,167	1,247,724
Business-Type Activities:		
General Obligation Bonds	3,735,000	3,885,000
Ohio Public Works Commission Loans	505,875	535,745
Ohio Water Development Authority Loans	3,405,173	3,356,693
Compensated Absences	70,196	64,223
Total Business-Type Activities	7,716,244	7,841,661
Totals	\$9,175,411	\$9,089,385

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2006, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 10.

CITY OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2006***

Unaudited

ECONOMIC FACTORS

At one time, the City of East Palestine was known for its pottery production with the potteries being the largest employers in the City. Currently the City has only one pottery left. A recycling company has purchased one of the closed potteries and the other one was torn down years ago. The City has five industrial plants with the remaining businesses being mainly sole-proprietor businesses. A fifty two lot housing development is under way on north west side of town. On the northeast side of town a housing development with 21 lots. New business development included a basket decoration, insurance company and many other small businesses. A nursing home development will start in 2007 and will start to employ 50 jobs sometime in 2008 this is one the north side of town.

The City's 2007 budget is very conservative.

The City's school district is now upgrading the football/track stadium. The school district is the City's largest withholding employer of City Income Tax.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Traci Thompson, Finance Director of the City of East Palestine.

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CITY OF EAST PALESTINE, OHIO

Statement of Net Assets
December 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 419,991	\$ 94,277	\$ 514,268
Investments	38,383	0	38,383
Receivables:			
Taxes	586,258	0	586,258
Accounts	60,705	193,035	253,740
Intergovernmental	398,573	45,100	443,673
Loans	17,164	0	17,164
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	8,085	11,881	19,966
Prepaid Items	32,241	2,677	34,918
Capital Assets, Net	4,519,148	9,237,129	13,756,277
Total Assets	<u>6,115,548</u>	<u>9,549,099</u>	<u>15,664,647</u>
Liabilities:			
Accounts Payable	58,481	94,713	153,194
Accrued Wages and Benefits	110,443	26,383	136,826
Intergovernmental Payable	414	2,840	3,254
Deferred Revenue	330,004	0	330,004
Accrued Interest Payable	9,739	36,753	46,492
Noncurrent liabilities:			
Due within one year	141,617	399,251	540,868
Due in more than one year	1,317,550	7,316,993	8,634,543
Total Liabilities	<u>1,968,248</u>	<u>7,876,933</u>	<u>9,845,181</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,276,367	1,591,081	4,867,448
Restricted For:			
Debt Service	19,343	0	19,343
Other Purposes	3,490,546	0	3,490,546
Unrestricted (Deficit)	(2,638,956)	81,085	(2,557,871)
Total Net Assets	<u>\$ 4,147,300</u>	<u>\$ 1,672,166</u>	<u>\$ 5,819,466</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

Statement of Activities
For the Year Ended December 31, 2006

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,383,951	\$ 178,505	\$ 337,171	\$ 3,500
Leisure Time Activities	261,737	55,348	0	111,595
Community Environment	310,050	4,701	3,528	0
Public Health and Welfare	45,727	39,126	0	0
Transportation	338,540	0	291,192	342,445
General Government	666,596	59,128	0	0
Interest and Fiscal Charges	1,000	0	0	0
Total Governmental Activities	<u>3,007,601</u>	<u>336,808</u>	<u>631,891</u>	<u>457,540</u>
Business-Type Activities:				
Water	440,065	502,933	0	45,100
Wastewater	794,185	1,086,460	0	68,230
Total Business-Type Activities	<u>1,234,250</u>	<u>1,589,393</u>	<u>0</u>	<u>113,330</u>
Totals	<u>\$ 4,241,851</u>	<u>\$ 1,926,201</u>	<u>\$ 631,891</u>	<u>\$ 570,870</u>

General Revenues

- Property Taxes Levied for:
 - General Purposes
 - Special Purposes
 - Income Tax
 - Other Local Taxes
- Intergovernmental Revenues, Unrestricted
- Investment Earnings
- Miscellaneous
- Transfers
- Total General Revenues and Transfers
- Change in Net Assets
 - Net Assets Beginning of Year
 - Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (864,775)	\$ 0	\$ (864,775)
(94,794)	0	(94,794)
(301,821)	0	(301,821)
(6,601)	0	(6,601)
295,097	0	295,097
(607,468)	0	(607,468)
(1,000)	0	(1,000)
<u>(1,581,362)</u>	<u>0</u>	<u>(1,581,362)</u>
0	107,968	107,968
<u>0</u>	<u>360,505</u>	<u>360,505</u>
0	468,473	468,473
<u>(1,581,362)</u>	<u>468,473</u>	<u>(1,112,889)</u>
110,257	0	110,257
231,446	0	231,446
837,140	0	837,140
530	0	530
30,662	0	30,662
22,706	0	22,706
112,833	0	112,833
249,939	(249,939)	0
<u>1,595,513</u>	<u>(249,939)</u>	<u>1,345,574</u>
14,151	218,534	232,685
<u>4,133,149</u>	<u>1,453,632</u>	<u>5,586,781</u>
<u>\$ 4,147,300</u>	<u>\$ 1,672,166</u>	<u>\$ 5,819,466</u>

CITY OF EAST PALESTINE, OHIO

Balance Sheet
Governmental Funds
December 31, 2006

	<u>General</u>	<u>CDBG</u>	<u>Electric Trust</u>
Assets:			
Cash and Cash Equivalents	\$ 35,592	\$ 61,698	\$ 106,385
Investments	0	0	0
Receivables:			
Taxes	321,946	0	0
Accounts	60,424	0	0
Intergovernmental	89,701	138,661	0
Loans	0	0	0
Interfund Loans Receivables	0	0	3,013,008
Inventory of Supplies, at Cost	0	0	0
Prepaid Items	31,000	0	0
Total Assets	<u>\$ 538,663</u>	<u>\$ 200,359</u>	<u>\$ 3,119,393</u>
Liabilities:			
Accounts Payable	\$ 47,367	\$ 0	\$ 0
Accrued Wages and Benefits Payable	88,625	0	0
Intergovernmental Payable	414	0	0
Interfund Loans Payable	818,000	0	0
Deferred Revenue	230,705	119,166	0
Total Liabilities	<u>1,185,111</u>	<u>119,166</u>	<u>0</u>
Fund Balance:			
Reserved for Encumbrances	13,331	42,185	0
Reserved for Prepaid Items	31,000	0	0
Reserved for Supplies Inventory	0	0	0
Reserved for Endowments	0	0	0
Undesignated, Unreserved in:			
General Fund (Deficit)	(690,779)	0	0
Special Revenue Funds	0	39,008	3,119,393
Debt Service Fund	0	0	0
Capital Project Funds (Deficit)	0	0	0
Total Fund Balance	<u>(646,448)</u>	<u>81,193</u>	<u>3,119,393</u>
Total Liabilities and Fund Balance	<u>\$ 538,663</u>	<u>\$ 200,359</u>	<u>\$ 3,119,393</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

<u>Capital Improvement</u>	<u>Capital Replacement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 69,141	\$ 676	\$ 146,499	\$ 419,991
0	0	38,383	38,383
0	95,363	168,949	586,258
0	0	281	60,705
0	2,250	167,961	398,573
0	0	17,164	17,164
0	0	0	3,013,008
0	0	8,085	8,085
0	0	1,241	32,241
<u>\$ 69,141</u>	<u>\$ 98,289</u>	<u>\$ 548,563</u>	<u>\$ 4,574,408</u>
\$ 1,465	\$ 0	\$ 9,649	\$ 58,481
0	0	21,818	110,443
0	0	0	414
2,072,962	0	87,046	2,978,008
0	94,110	299,290	743,271
<u>2,074,427</u>	<u>94,110</u>	<u>417,803</u>	<u>3,890,617</u>
65,093	396	29,933	150,938
0	0	1,241	32,241
0	0	8,085	8,085
0	0	50,216	50,216
0	0	0	(690,779)
0	0	14,162	3,172,563
0	0	19,343	19,343
<u>(2,070,379)</u>	<u>3,783</u>	<u>7,780</u>	<u>(2,058,816)</u>
<u>(2,005,286)</u>	<u>4,179</u>	<u>130,760</u>	<u>683,791</u>
<u>\$ 69,141</u>	<u>\$ 98,289</u>	<u>\$ 548,563</u>	<u>\$ 4,574,408</u>

CITY OF EAST PALESTINE, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2006***

Total Governmental Fund Balances	\$	683,791
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		4,519,148
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		413,267
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(216,386)	
OPWC Loan Payable	(16,588)	
West Street Bridge Project Loan	(265,000)	
ODOT Loan	(666,914)	
Capital Leases	(294,279)	
Accrued Interest Payable	(9,739)	
	<u> </u>	<u>(1,468,906)</u>
<i>Net Assets of Governmental Activities</i>	\$	<u>4,147,300</u>

See accompanying notes to the basic financial statements

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CITY OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006**

	<u>General</u>	<u>CDBG</u>	<u>FEMA</u>
Revenues:			
Taxes	\$ 962,351	\$ 0	\$ 0
Intergovernmental Revenues	176,883	358,062	295,858
Charges for Services	168,119	0	0
Licenses and Permits	75,895	0	0
Investment Earnings	21,656	0	0
Fines and Forfeitures	8,546	0	0
All Other Revenue	20,562	24,080	0
Total Revenue	<u>1,434,012</u>	<u>382,142</u>	<u>295,858</u>
Expenditures:			
Current:			
Security of Persons and Property	997,804	0	254,337
Public Health and Welfare	45,727	0	0
Leisure Time Activities	0	0	0
Community Environment	0	310,050	0
Transportation	0	0	0
General Government	599,601	0	0
Capital Outlay	22,965	0	0
Debt Service:			
Interest & Fiscal Charges	0	0	0
Total Expenditures	<u>1,666,097</u>	<u>310,050</u>	<u>254,337</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(232,085)	72,092	41,521
Other Financing Sources (Uses):			
Sale of Capital Assets	16,977	0	0
Ohio Public Works Commission Loan	0	0	0
Ohio Department of Transportation Loan	0	0	0
Other Financing Sources - Capital Lease	22,965	0	0
Transfers In	192,003	1,207	1,166
Transfers Out	(95,332)	0	(42,567)
Total Other Financing Sources (Uses)	<u>136,613</u>	<u>1,207</u>	<u>(41,401)</u>
Net Change in Fund Balance	(95,472)	73,299	120
Fund Balance (Deficit) at Beginning of Year	(550,976)	7,894	(120)
Decrease in Inventory Reserve	0	0	0
Fund Balance (Deficit) End of Year	<u>\$ (646,448)</u>	<u>\$ 81,193</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

Electric Trust	Capital Improvement	Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 80,616	\$ 133,421	\$ 1,176,388
0	0	7,813	308,851	1,147,467
0	0	0	83,249	251,368
0	0	0	0	75,895
0	0	0	1,050	22,706
0	0	0	1,840	10,386
225	5,358	0	62,608	112,833
<u>225</u>	<u>5,358</u>	<u>88,429</u>	<u>591,019</u>	<u>2,797,043</u>
0	0	0	29,672	1,281,813
0	0	0	0	45,727
0	0	0	227,264	227,264
0	0	0	0	310,050
0	0	0	277,363	277,363
0	0	0	45,703	645,304
0	385,167	462,753	113,351	984,236
<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000</u>	<u>1,000</u>
<u>0</u>	<u>385,167</u>	<u>462,753</u>	<u>694,353</u>	<u>3,772,757</u>
225	(379,809)	(374,324)	(103,334)	(975,714)
0	0	5,215	0	22,192
0	0	0	11,445	11,445
0	31,577	0	0	31,577
0	0	275,000	0	297,965
0	328,964	0	13,000	536,340
<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,207)</u>	<u>(139,106)</u>
<u>0</u>	<u>360,541</u>	<u>280,215</u>	<u>23,238</u>	<u>760,413</u>
225	(19,268)	(94,109)	(80,096)	(215,301)
3,119,168	(1,986,018)	98,288	211,853	900,089
<u>0</u>	<u>0</u>	<u>0</u>	<u>(997)</u>	<u>(997)</u>
<u>\$ 3,119,393</u>	<u>\$ (2,005,286)</u>	<u>\$ 4,179</u>	<u>\$ 130,760</u>	<u>\$ 683,791</u>

CITY OF EAST PALESTINE, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2006***

Net Change in Fund Balances - Total Governmental Funds \$ (215,301)

Amounts reported for governmental activities in the statement of activities are different because

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

Capital Outlay	683,447	
Depreciation Expense	<u>(216,325)</u>	467,122

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	342,445
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(367,675)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net assets.

OPWC Loan	(11,445)	
ODOT Loan	(31,577)	
New Capital Lease	<u>(297,965)</u>	(340,987)

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

Capital Lease Payment	122,285
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	7,259	
Change in Inventory	<u>(997)</u>	6,262

<i>Change in Net Assets of Governmental Activities</i>	\$ 14,151
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See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 919,055	\$ 919,055	\$ 892,687	\$ (26,368)
Intergovernmental Revenue	308,975	308,975	300,110	(8,865)
Charges for Services	172,905	172,905	167,944	(4,961)
Licenses and Permits	77,370	77,370	75,150	(2,220)
Investment Earnings	32,091	32,091	31,170	(921)
Fines and Forfeitures	9,122	9,122	8,860	(262)
All Other Revenues	20,987	20,987	20,386	(601)
Total Revenues	<u>1,540,505</u>	<u>1,540,505</u>	<u>1,496,307</u>	<u>(44,198)</u>
Expenditures:				
Current:				
Security of Persons and Property	1,022,385	1,030,750	1,010,773	19,977
Public Health and Welfare	46,619	47,001	46,090	911
General Government	612,732	617,744	605,772	11,972
Total Expenditures	<u>1,681,736</u>	<u>1,695,495</u>	<u>1,662,635</u>	<u>32,860</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(141,231)	(154,990)	(166,328)	(11,338)
Other Financing Sources (Uses):				
Sale of Capital Assets	16,977	16,977	16,977	0
Transfers In	192,003	192,003	192,003	0
Transfers Out	(95,332)	(95,332)	(95,332)	0
Advances In	38,000	38,000	38,000	0
Total Other Financing Sources (Uses):	<u>151,648</u>	<u>151,648</u>	<u>151,648</u>	<u>0</u>
Net Change in Fund Balance	10,417	(3,342)	(14,680)	(11,338)
Fund Balance at Beginning of Year	14,625	14,625	14,625	0
Prior Year Encumbrances	10,777	10,777	10,777	0
Fund Balance at End of Year	<u>\$ 35,819</u>	<u>\$ 22,060</u>	<u>\$ 10,722</u>	<u>\$ (11,338)</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Community Development Block Grant Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental Revenue	\$ 313,708	\$ 308,763	\$ 348,567	\$ 39,804
All Other Revenues	21,672	21,330	24,080	2,750
Total Revenues	335,380	330,093	372,647	42,554
Expenditures:				
Current:				
Community Environment	352,235	352,235	352,235	0
Total Expenditures	352,235	352,235	352,235	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,855)	(22,142)	20,412	42,554
Other Financing Sources (Uses):				
Transfers In	1,207	1,207	1,207	0
Total Other Financing Sources (Uses):	1,207	1,207	1,207	0
Net Change in Fund Balance	(15,648)	(20,935)	21,619	42,554
Fund Balance at Beginning of Year	(2,106)	(2,106)	(2,106)	0
Fund Balance at End of Year	\$ (17,754)	\$ (23,041)	\$ 19,513	\$ 42,554

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - FEMA Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental Revenue	\$ 1,146,931	\$ 1,093,875	\$ 1,093,875	\$ 0
Total Revenues	1,146,931	1,093,875	1,093,875	0
Expenditures:				
Current:				
Security of Persons and Property	946,668	905,481	905,481	0
Total Expenditures	946,668	905,481	905,481	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	200,263	188,394	188,394	0
Other Financing Sources (Uses):				
Transfers In	1,166	1,166	1,166	0
Transfers Out	(201,429)	(201,429)	(201,429)	0
Total Other Financing Sources (Uses):	(200,263)	(200,263)	(200,263)	0
Net Change in Fund Balance	0	(11,869)	(11,869)	0
Fund Balance at Beginning of Year	11,869	11,869	11,869	0
Fund Balance at End of Year	\$ 11,869	\$ 0	\$ 0	\$ 0

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Electric Trust Fund
For the Year Ended December 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
All Other Revenues	\$ 100,000	\$ 100,000	\$ 225	\$ (99,775)
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>225</u>	<u>(99,775)</u>
Expenditures:				
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	100,000	100,000	225	(99,775)
Other Financing Sources (Uses):				
Advances Out	<u>(101,000)</u>	<u>(101,000)</u>	<u>(101,000)</u>	<u>0</u>
Total Other Financing Sources (Uses):	<u>(101,000)</u>	<u>(101,000)</u>	<u>(101,000)</u>	<u>0</u>
Net Change in Fund Balance	(1,000)	(1,000)	(100,775)	(99,775)
Fund Balance at Beginning of Year	<u>207,160</u>	<u>207,160</u>	<u>207,160</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 206,160</u>	<u>\$ 206,160</u>	<u>\$ 106,385</u>	<u>\$ (99,775)</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

Statement of Net Assets
Proprietary Funds
December 31, 2006

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and Cash Equivalents	\$ 43,198	\$ 51,079	\$ 94,277
Receivables:			
Accounts	55,670	137,365	193,035
Intergovernmental	45,100	0	45,100
Inventory of Supplies at Cost	10,241	1,640	11,881
Prepaid Items	827	1,850	2,677
Total current assets	155,036	191,934	346,970
Noncurrent assets:			
Capital Assets, Net	1,145,706	8,091,423	9,237,129
Total noncurrent assets	1,145,706	8,091,423	9,237,129
Total assets	1,300,742	8,283,357	9,584,099
LIABILITIES			
Current liabilities:			
Accounts Payable	63,470	31,243	94,713
Accrued Wages and Benefits	10,259	16,124	26,383
Intergovernmental Payable	240	2,600	2,840
Accrued Interest Payable	9,154	27,599	36,753
General Obligation Bonds Payable - Current	6,615	143,385	150,000
OWDA Loans Payable - Current	41,525	166,243	207,768
OPWC Loans Payable - Current	2,920	26,950	29,870
Total Current Liabilities	134,183	414,144	548,327
Noncurrent Liabilities:			
General Obligation Bonds Payable	98,865	3,486,135	3,585,000
OWDA Loans Payable	207,621	2,989,784	3,197,405
OPWC Loans Payable	4,380	471,625	476,005
Interfund Loan Payable	10,000	25,000	35,000
Compensated Absences Payable	39,727	30,469	70,196
Total noncurrent liabilities	360,593	7,003,013	7,363,606
Total Liabilities	494,776	7,417,157	7,911,933
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	783,780	807,301	1,591,081
Unrestricted	22,186	58,899	81,085
Total Net Assets	\$ 805,966	\$ 866,200	\$ 1,672,166

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
Operating Revenues:			
Charges for Services	\$ 502,380	\$ 1,084,714	\$ 1,587,094
Total Operating Revenues	<u>502,380</u>	<u>1,084,714</u>	<u>1,587,094</u>
Operating Expenses:			
Personal Services	162,844	240,854	403,698
Contractual Services	59,776	12,423	72,199
Materials and Supplies	62,895	26,042	88,937
Utilities	49,967	89,421	139,388
Depreciation	79,600	289,501	369,101
Total Operating Expenses	<u>415,082</u>	<u>658,241</u>	<u>1,073,323</u>
Operating Income	87,298	426,473	513,771
Non-Operating Revenue (Expenses):			
Interest and Fiscal Charges	(24,371)	(134,998)	(159,369)
Capital Contributions	45,100	215,525	260,625
Loss on Sale of Capital Assets	(612)	0	(612)
Other Nonoperating Revenue	553	1,746	2,299
Other Nonoperating Expense	0	(946)	(946)
Total Non-Operating Revenues (Expenses)	<u>20,670</u>	<u>81,327</u>	<u>101,997</u>
Income Before Transfers	107,968	507,800	615,768
Transfers:			
Transfers-In	0	33,897	33,897
Transfers-Out	(94,733)	(336,398)	(431,131)
Total Transfers	<u>(94,733)</u>	<u>(302,501)</u>	<u>(397,234)</u>
Change in Net Assets	13,235	205,299	218,534
Net Assets Beginning of Year	792,731	660,901	1,453,632
Net Assets End of Year	<u>\$ 805,966</u>	<u>\$ 866,200</u>	<u>\$ 1,672,166</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

**Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006**

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$499,623	\$1,058,089	\$1,557,712
Cash Payments for Goods and Services	(159,046)	(231,924)	(390,970)
Cash Payments to Employees	(160,778)	(240,897)	(401,675)
Net Cash Provided by Operating Activities	<u>179,799</u>	<u>585,268</u>	<u>765,067</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers In from Other Funds	0	17,164	17,164
Transfers Out to Other Funds	(78,000)	(85,000)	(163,000)
Net Cash Used by Noncapital Financing Activities	<u>(78,000)</u>	<u>(67,836)</u>	<u>(145,836)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(39,116)	(1,340)	(40,456)
Capital Contributions	0	68,230	68,230
Principal Paid on Ohio Water Development Authority Loan	(41,525)	(164,808)	(206,333)
Proceeds from Ohio Water Development Authority Loan	0	3,415	3,415
Principal Paid on General Obligation Bond	(15,750)	(134,250)	(150,000)
Principal Paid on Ohio Public Works Commission Loan	(2,920)	(26,950)	(29,870)
Interest Paid on All Debt	(33,447)	(228,028)	(261,475)
Net Cash Used by Capital and Related Financing Activities	<u>(132,758)</u>	<u>(483,731)</u>	<u>(616,489)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(30,959)	33,701	2,742
Cash and Cash Equivalents at Beginning of Year	74,157	17,378	91,535
Cash and Cash Equivalents at End of Year	<u>\$43,198</u>	<u>\$51,079</u>	<u>\$94,277</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income	\$87,298	\$426,473	\$513,771
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	79,600	289,501	369,101
Miscellaneous Nonoperating Revenue	553	1,746	2,299
Miscellaneous Nonoperating Expense	0	(946)	(946)
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(3,310)	(28,371)	(31,681)
Increase in Inventory	(856)	(556)	(1,412)
Decrease in Prepaid Items	2,434	1,736	4,170
Increase (Decrease) in Accounts Payable	11,790	(106,656)	(94,866)
Decrease in Accrued Wages and Benefits	(597)	(3,585)	(4,182)
Increase in Intergovernmental Payable	240	2,600	2,840
Increase in Compensated Absences	2,647	3,326	5,973
Total Adjustments	<u>92,501</u>	<u>158,795</u>	<u>251,296</u>
Net Cash Provided by Operating Activities	<u>\$179,799</u>	<u>\$585,268</u>	<u>\$765,067</u>

See accompanying notes to the basic financial statements

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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 basic 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, 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 basic financial statements. The following fund types 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 major governmental funds:

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.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

CDBG Fund - To account for federal grants administered through the State which are designated for community and environmental improvements.

FEMA Fund - This fund is used to account for federal monies awarded in response to storm damages.

Electric Trust Fund - This fund was created to account for proceeds received by the City from the sale of the City Electric Plant. These proceeds may be used by the City for purposes approved by city council.

Capital Improvement Fund - This fund is used to account for the financial resources used for the major capital projects undertaken by the City.

Capital Replacement Fund - This fund is used to account for levy proceeds restricted in use for fire department capital expenditures.

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. 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. The City's major enterprise funds are:

Water Fund - This fund is used to account for the operation of the City's water service.

Wastewater Fund - This fund is used to account for the operation of the City's sanitary sewer service.

C. Basis of Presentation - Financial Statements

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

D. 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.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental 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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenues considered susceptible to accrual at year end include income taxes, 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, 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, 2006 but which are not intended to finance 2006 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 government-wide statements, proprietary funds and agency 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. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 2006.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 2006, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General and Major Special Revenue Funds" 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 basic 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.

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 General and Major Special Revenue funds:

	Net Change in Fund Balances			
	General Fund	CDBG Fund	FEMA Fund	Electric Trust Fund
GAAP Basis (as reported)	(\$95,472)	\$73,299	\$120	\$225
Increase (Decrease):				
Accrued Revenues at December 31, 2006 received during 2007	(241,366)	(19,495)	0	(3,013,008)
Accrued Revenues at December 31, 2005 received during 2006	303,661	10,000	798,017	2,912,008
Accrued Expenditures at December 31, 2006 paid during 2007	174,406	0	0	0
Accrued Expenditures at December 31, 2005 paid during 2006	(132,409)	0	(810,006)	0
2005 Prepays for 2006	32,370	0	0	0
2006 Prepays for 2007	(31,000)	0	0	0
Outstanding Encumbrances	(24,870)	(42,185)	0	0
Budget Basis	<u>(\$14,680)</u>	<u>\$21,619</u>	<u>(\$11,869)</u>	<u>(\$100,775)</u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasurer's Asset 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."

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 2006. 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, 2006. See Note 3, "Cash, Cash Equivalents and Investments."

H. 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 funds when purchased and as expenses in the proprietary funds when used.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Estimated historical costs for governmental activities capital asset values were initially determined 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 capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

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 capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Buildings	30 - 40
Improvements other than Buildings	50
Machinery, Equipment, Furniture and Fixtures	5 - 15
Infrastructure	50 - 100

J. Long-Term Obligations

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

Obligation	Fund
Ohio Water Development Authority Loans	Water Fund Wastewater Fund
General Obligation Bond	Wastewater Fund
Ohio Public Works Commission Loan	General Bond Retirement Fund Water Fund, Wastewater Fund
Compensated Absences	General Fund Street Construction, Maintenance and Repair Fund Water Fund, Wastewater Fund
West Street Bridget Project Loan	Bridge Fund
Ohio Department of Transportation Loan	Street Construction, Maintenance and Repair Fund
Capital Leases	General Fund, Capital Improvement Fund

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

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, that portion of unpaid compensated absences that is 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." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

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

L. Net Assets

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

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

M. Pensions

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

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Activity

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

O. 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, endowments and encumbered amounts which have not been accrued at year end.

P. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water treatment and distribution and wastewater collection and treatment. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items to report during fiscal year 2006.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2006 of \$646,448 in the General Fund, \$1,239 in the Police Pension Fund, \$86,843 in the Downtown Revitalization Fund (special revenue funds) and \$2,005,286 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 general fund provides 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 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;

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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

- 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).

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. 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. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

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

A. Deposits (Continued)

At year end the carrying amount of the City's deposits was \$398,701 and the bank balance was \$438,509. Federal depository insurance covered \$133,354 of the bank balance and \$305,155 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$305,155
Total Balance	\$305,155

Investment earnings of \$20,121 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The City's investments at December 31, 2006 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>
STAR Ohio	\$50,943	AAAm ¹	\$50,943	\$0	\$0
Repurchase Agreement	103,007	N/A	103,007	0	0
Total Investments	\$153,950		\$153,950	\$0	\$0

¹ Standard & Poor's

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

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

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the 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 Financial Statements	\$514,268	\$38,383
Certificates of Deposit (with maturities of more than 3 months)	38,383	(38,383)
Investments:		
STAR Ohio	(50,943)	50,943
Repurchase Agreement	<u>(103,007)</u>	<u>103,007</u>
Per GASB Statement No. 3	<u><u>\$398,701</u></u>	<u><u>\$153,950</u></u>

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 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005 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 2004. 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.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 4 - 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, 2006 was \$6.90 per \$1,000 of assessed value. The assessed value upon which the 2006 tax receipts was based was \$61,981,433. This amount constitutes \$55,987,580 in real property assessed value, \$2,791,330 in public utility assessed value, and \$3,202,523 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 .69% (6.9 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. 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, 2006 consisted of taxes, accounts receivable, CDBG loans, interfund receivables and intergovernmental receivables.

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 6 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2006:

Fund	Transfer In	Transfer Out
General Fund	\$192,003	\$95,332
CDBG Fund	1,207	0
FEMA Fund	1,166	42,567
Capital Improvement Fund	328,964	0
Other Governmental Funds	13,000	1,207
Total Governmental Funds	536,340	139,106
Water Fund	0	94,733
Wastewater Fund	33,897	336,398
Total Proprietary Funds	33,897	431,131
Totals	<u>\$570,237</u>	<u>\$570,237</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2006:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$0	\$818,000
Electric Trust Fund	3,013,008	0
Capital Improvement Fund	0	2,072,962
Other Governmental Funds	0	87,046
Water Fund	0	10,000
Wastewater Fund	0	25,000
Totals	<u>\$3,013,008</u>	<u>\$3,013,008</u>

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2006:

Historical Cost:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<i>Capital assets not being depreciated:</i>				
Land	\$298,749	\$0	\$0	\$298,749
Construction in Progress	170,763	118,952	(41,283)	248,432
Subtotal	469,512	118,952	(41,283)	547,181
<i>Capital assets being depreciated:</i>				
Buildings	1,850,488	0	0	1,850,488
Improvements Other than Buildings	124,205	0	0	124,205
Machinery and Equipment	2,238,289	395,528	0	2,633,817
Infrastructure	988,032	552,695	0	1,540,727
Subtotal	5,201,014	948,223	0	6,149,237
Total Cost	<u>\$5,670,526</u>	<u>\$1,067,175</u>	<u>(\$41,283)</u>	<u>\$6,696,418</u>
<i>Accumulated Depreciation:</i>				
Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$565,217)	(\$37,550)	\$0	(\$602,767)
Improvements Other than Buildings	(27,304)	(5,589)	0	(32,893)
Machinery and Equipment	(1,346,425)	(136,679)	0	(1,483,104)
Infrastructure	(21,999)	(36,507)	0	(58,506)
Total Depreciation	<u>(\$1,960,945)</u>	<u>(\$216,325) *</u>	<u>\$0</u>	<u>(\$2,177,270)</u>
<i>Net Value:</i>	<u>\$3,709,581</u>			<u>\$4,519,148</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$99,302
Leisure Time Activities	36,756
Transportation	55,449
General Government	24,818
Total Depreciation Expense	<u>\$216,325</u>

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2006:

Historical Cost:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<i>Capital assets not being depreciated:</i>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	3,025,800	0	(3,025,800)	0
Subtotal	<u>3,203,311</u>	<u>0</u>	<u>(3,025,800)</u>	<u>177,511</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	450,250	0	0	450,250
Machinery and Equipment	1,293,461	5,703	(6,386)	1,292,778
Infrastructure	6,665,424	3,218,195	0	9,883,619
Subtotal	<u>10,382,342</u>	<u>3,223,898</u>	<u>(6,386)</u>	<u>13,599,854</u>
Total Cost	<u><u>\$13,585,653</u></u>	<u><u>\$3,223,898</u></u>	<u><u>(\$3,032,186)</u></u>	<u><u>\$13,777,365</u></u>

Accumulated Depreciation:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$1,084,415)	(\$49,330)	\$0	(\$1,133,745)
Improvements Other than Buildings	(244,544)	(8,785)	0	(253,329)
Machinery and Equipment	(891,867)	(124,817)	5,774	(1,010,910)
Infrastructure	(1,956,083)	(186,169)	0	(2,142,252)
Total Depreciation	<u>(\$4,176,909)</u>	<u>(\$369,101)</u>	<u>\$5,774</u>	<u>(\$4,540,236)</u>

Net Value:

	<u><u>\$9,408,744</u></u>		<u><u>\$9,237,129</u></u>
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CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

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. 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 that has elements of both a defined benefit and defined contribution 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, including postemployment health care 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) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.0%. The 2006 employer contribution rate for local government employer units was 13.70%, of covered payroll, 9.20% to fund the pension and 4.5% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2006, 2005, and 2004 were \$140,147, \$157,023 and \$149,520, respectively, which were equal to the required contributions for each year.

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 9 – 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 under the TP and CO plans 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 2006 employer contribution rate (identified above) that was used to fund health care for the year 2006 was 4.5% of covered payroll which amounted to \$46,034.

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, 2005. The individual entry age 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 annually, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.5%. 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 plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 358,804. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2005 is \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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, 2006, 2005, and 2004 were \$54,661, \$54,962 and \$56,184 for police and \$11,689, \$12,105 and \$11,319 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 2006 covered payroll that was used to fund postemployment health care benefits was \$21,724 representing 7.75% of covered payroll for police and \$4,646 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, 2005, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,922 for police and 10,537 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, 2005 were \$108,039,449, which was net of member contributions of \$55,271,881.

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 10 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2006 were as follows:

		Balance December 31, 2005	Additions	Deductions	Balance December 31, 2006	Amount Due Within One Year
Governmental Activities:						
Ohio Public Works Commission Loan:						
Bridge Replacement	2005	\$5,143	\$11,445	\$0	\$16,588	\$0
West Street Bridge Project Loan	2005	265,000	0	0	265,000	0
Ohio Department of Transportation						
Street Improvement Loan	2005	635,337	31,577	0	666,914	0
Capital Leases		118,599	297,965	(122,285)	294,279	96,639
Compensated Absences Payable		223,645	216,386	(223,645)	216,386	44,978
Total Governmental Activities		<u>1,247,724</u>	<u>557,373</u>	<u>(345,930)</u>	<u>1,459,167</u>	<u>141,617</u>
Business-Type Activities:						
General Obligation Bonds:						
Various Purpose Bond	1999	1,785,000	0	(105,000)	1,680,000	105,000
Sewerage System Refunding Bond	2003	2,100,000	0	(45,000)	2,055,000	45,000
Total General Obligation Bonds:		<u>3,885,000</u>	<u>0</u>	<u>(150,000)</u>	<u>3,735,000</u>	<u>150,000</u>
Ohio Public Works Commission Loan:						
Waterline Improvement	2000	10,220	0	(2,920)	7,300	2,920
Phase Five Sanitary Sewer	2005	525,525	0	(26,950)	498,575	26,950
Total OPWC Loans:		<u>535,745</u>	<u>0</u>	<u>(29,870)</u>	<u>505,875</u>	<u>29,870</u>
Ohio Water Development Authority Loans:						
Water Treatment Plant	1992	290,671	0	(41,525)	249,146	41,525
Sewer Project - Phase Two	1999	949,057	0	(56,230)	892,827	57,474
Wastewater Treatment Plant	2004	2,116,965	254,813	(108,578)	2,263,200	108,769
Total OWDA Loans:		<u>3,356,693</u>	<u>254,813</u>	<u>(206,333)</u>	<u>3,405,173</u>	<u>207,768</u>
Compensated Absences		<u>64,223</u>	<u>70,196</u>	<u>(64,223)</u>	<u>70,196</u>	<u>11,613</u>
Total Business-Type Activities		<u>7,841,661</u>	<u>325,009</u>	<u>(450,426)</u>	<u>7,716,244</u>	<u>399,251</u>
Totals		<u>\$9,089,385</u>	<u>\$882,382</u>	<u>(\$796,356)</u>	<u>\$9,175,411</u>	<u>\$540,868</u>

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 10 - 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, 2006, follows:

Years	OPWC Loan		West Street Bridge Loan		ODOT Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$29,870	\$0	\$0	\$11,687	\$0	\$0
2008	46,458	0	265,000	11,687	58,064	19,213
2009	28,410	0	0	0	59,830	17,447
2010	26,950	0	0	0	61,650	15,628
2011	26,950	0	0	0	63,525	13,752
2012-2016	134,750	0	0	0	347,809	38,576
2017-2021	134,750	0	0	0	76,036	1,241
2022-2026	94,325	0	0	0	0	0
2027-2031	0	0	0	0	0	0
Totals	\$522,463	\$0	\$265,000	\$23,374	\$666,914	\$105,857

Years	General Obligation Bond		OWDA Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$150,000	\$193,678	\$207,768	\$59,137	\$387,638	\$264,502
2008	160,000	187,595	210,127	53,871	739,649	272,366
2009	165,000	178,480	212,529	48,561	465,769	244,488
2010	180,000	170,480	214,971	43,214	483,571	229,322
2011	185,000	161,755	217,451	37,827	492,926	213,334
2012-2016	1,065,000	698,500	959,849	124,280	2,507,408	861,356
2017-2021	755,000	432,300	870,424	54,071	1,836,210	487,612
2022-2026	535,000	248,375	512,054	11,609	1,141,379	259,984
2027-2031	540,000	79,945	0	0	540,000	79,945
Totals	\$3,735,000	\$2,351,108	\$3,405,173	\$432,570	\$8,594,550	\$2,912,909

CITY OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

C. 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 Improvements. 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 \$2,095,000 at December 31, 2006, 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 11 - CAPITAL LEASES

The City leases several pieces of equipment under capital leases. The original cost of the equipment and the related liability are reported on the Government – wide Statement of Net Assets.

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, 2006:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2007	\$109,115
2008	93,840
2009	93,840
2010	17,843
2011	<u>5,200</u>
Minimum Lease Payments	<u>319,838</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(25,559)</u>
Present value of minimum lease payments	<u><u>\$294,279</u></u>

CITY OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 12 - 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.

The City of East Palestine obtained insurance coverage from the Pool for the years 2006 through 2007 for losses related to general liability, public officials liability, automobile, law enforcement liability, medical malpractice liability, and employee benefits liability.

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 2006, the City of East Palestine made contributions to the Pool totaling \$81,708.

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, 2006 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 \$10,000,000 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.

CITY OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2006***

NOTE 13 - 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 14 - CONSTRUCTION COMMITMENTS

The City had the following contractual commitments at December 31, 2006:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
West Street Bridge Improvements	\$25,246	2007
Copes Lift Station	61,183	2007

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palestine as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 6, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of East Palestine's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of East Palestine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that we must report under *Government Auditing Standard*. We noted certain immaterial instances of noncompliance, which we have reported to management of City of East Palestine in a separate letter dated June 6, 2007.

This report is intended for the information of the Mayor, City Council, management, 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 6, 2007

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH *OMB CIRCULAR A-133***

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

Compliance

We have audited the compliance of City of East Palestine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. City of East Palestine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of East Palestine management. Our responsibility is to express an opinion on City of East Palestine'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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of East Palestine'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 City of East Palestine's compliance with those requirements.

In our opinion, the City of East Palestine 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, 2006.

Internal Control Over Compliance

The management of City of East Palestine 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.

Report on Compliance with OMB A-133
Page 2

This report is intended for the information of the Mayor, City Council, management, 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 6, 2007

**CITY OF EAST PALESTINE
COLUMBIANA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION 505**

1. Summary of Auditor's Results

(d)(1)(I)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section. 510?	NO
(d)(1)(vii)	Major Programs:	Disaster Assistance Grant; CFDA # 97.036
(d)(1)(viii)	Dollar Threshold: Type A/B Programs:	Type A: >\$300,000; Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

NONE

3. Findings and Questioned Costs for Federal Awards

NONE

**CITY OF EAST PALESTINE
COLUMBIANA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
(pass through Ohio Department of Development)				
Community Development Block Grant	A-C-05-116-1	14.228	48,450	48,726
			48,450	48,726
HOME Investment Partnership Program	A-C-05-116-2	14.239	223,884	211,434
			223,884	211,434
Total U.S. Department of Housing and Urban Development			272,334	260,160
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
(pass through Ohio Emergency Management Agency)				
Disaster Assistance Grant (FEMA)	FEMA-DR-1519-OH	97.036	913,788	929,804
Total U.S. Department of Homeland Security			913,788	929,804
Total Federal Awards Expenditures			1,186,122	1,189,964

See notes to Schedule of Federal Awards Expenditures.

CITY OF EAST PALESTINE
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTES 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.

NOTE B - MATCHING REQUIREMENTS

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



Mary Taylor, CPA
Auditor of State

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 12, 2007**