

**CITY OF EAST PALESTINE**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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





Mary Taylor, CPA  
Auditor of State

Members of City Council  
City of East Palestine  
82 Garfield Avenue  
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, 2007 through December 31, 2007. 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

July 18, 2008

**This Page is Intentionally Left Blank.**

**CITY OF EAST PALESTINE  
COLUMBIANA COUNTY**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management Discussion and Analysis.....	3
<b>Government-wide Financial Statements:</b>	
Statement of Nets Assets Year Ended December 31, 2007.....	13
Statement of Activities Year Ended December 31, 2007.....	14
<b>Fund Financial Statements:</b>	
<b>Governmental Funds</b>	
Balance Sheet, Year Ended December 31, 2007.....	16
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activites.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance, Year Ended December 31, 2007.....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	22
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - General Fund, Year Ended December 31, 2007.....	23
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - Electric Trust Fund, Year Ended December 31, 2007.....	24
<b>Proprietary Funds</b>	
Statement of Net Assets, Year Ended December 31, 2007.....	25
Statement of Revenues, Expenses and Changes in Fund Net Assets, Year Ended December 31, 2007.....	26
Statement of Cash Flows, Year Ended December 31, 2007.....	27
Notes to the Financial Statements.....	28
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	55

**This Page is Intentionally Left Blank.**

**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, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General 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 5, 2008, 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.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
June 5, 2008

***CITY OF EAST PALESTINE, OHIO***

---

This Page Intentionally Left Blank

## **CITY OF EAST PALESTINE, OHIO**

---

***Management's Discussion and Analysis  
For the Year Ended December 31, 2007***

***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, 2007. 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 2007 are as follows:

- ❑ In total, net assets increased \$951,515. Net assets of governmental activities increased \$157,883, which represents a 4% change from 2006. Net assets of business-type activities increased \$793,632 or 47% from 2006.
- ❑ General revenues accounted for \$1,672,237 in revenue or 31% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,650,327, 69% of total revenues of \$5,322,564.
- ❑ The City had \$2,904,004 in expenses related to governmental activities; only \$1,243,650 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,672,237 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,678,990 in revenues and \$1,716,075 in expenditures. The general fund's fund balance decreased from a deficit of \$646,448 to a deficit of \$662,291.

### **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, 2007*

*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, 2007**

**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 2007 compared to 2006.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$1,893,403	\$1,596,400	\$1,064,186	\$311,970	\$2,957,589	\$1,908,370
Capital assets, Net	4,468,795	4,519,148	9,336,767	9,237,129	13,805,562	13,756,277
Total assets	6,362,198	6,115,548	10,400,953	9,549,099	16,763,151	15,664,647
Long-term debt outstanding	1,403,502	1,459,167	7,616,065	7,716,244	9,019,567	9,175,411
Other liabilities	653,513	509,081	319,090	160,689	972,603	669,770
Total liabilities	2,057,015	1,968,248	7,935,155	7,876,933	9,992,170	9,845,181
Net assets						
Invested in capital assets, net of related debt	3,228,590	3,276,367	1,878,898	1,591,081	5,107,488	4,867,448
Restricted	3,744,639	3,509,889	0	0	3,744,639	3,509,889
Unrestricted	(2,668,046)	(2,638,956)	586,900	81,085	(2,081,146)	(2,557,871)
Total net assets	<u>\$4,305,183</u>	<u>\$4,147,300</u>	<u>\$2,465,798</u>	<u>\$1,672,166</u>	<u>\$6,770,981</u>	<u>\$5,819,466</u>

## CITY OF EAST PALESTINE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2007

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2007 compared to 2006:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for Services and Sales	\$447,645	\$336,808	\$1,607,077	\$1,589,393	\$2,054,722	\$1,926,201
Operating Grants and Contributions	796,005	631,891	0	0	796,005	631,891
Capital Grants and Contributions	0	457,540	799,600	113,330	799,600	570,870
Total Program revenues	1,243,650	1,426,239	2,406,677	1,702,723	3,650,327	3,128,962
General revenues:						
Property Taxes	350,531	341,703	0	0	350,531	341,703
Income Taxes	1,040,054	837,140	0	0	1,040,054	837,140
Other Local Taxes	486	530	0	0	486	530
Intergovernmental Revenues, Unrestricted	186,567	30,662	0	0	186,567	30,662
Investment Earnings	17,537	22,706	0	0	17,537	22,706
Miscellaneous	77,062	112,833	0	0	77,062	112,833
Total General revenues	1,672,237	1,345,574	0	0	1,672,237	1,345,574
Total revenues	2,915,887	2,771,813	2,406,677	1,702,723	5,322,564	4,474,536
Program Expenses						
Security of Persons and Property	1,226,581	1,383,951	0	0	1,226,581	1,383,951
Leisure Time Activities	300,080	261,737	0	0	300,080	261,737
Community Environment	221,301	310,050	0	0	221,301	310,050
Public Health and Welfare	116,221	45,727	0	0	116,221	45,727
Transportation	400,558	338,540	0	0	400,558	338,540
General Government	629,402	666,596	0	0	629,402	666,596
Interest and Fiscal Charges	9,861	1,000	0	0	9,861	1,000
Water	0	0	443,614	440,065	443,614	440,065
Wastewater	0	0	1,023,431	794,185	1,023,431	794,185
Total expenses	2,904,004	3,007,601	1,467,045	1,234,250	4,371,049	4,241,851
Change in Net Assets before transfers	11,883	(235,788)	939,632	468,473	951,515	232,685
Transfers	146,000	249,939	(146,000)	(249,939)	0	0
Total Change in Net Assets	157,883	14,151	793,632	218,534	951,515	232,685
Beginning Net Assets	4,147,300	4,133,149	1,672,166	1,453,632	5,819,466	5,586,781
Ending Net Assets	\$4,305,183	\$4,147,300	\$2,465,798	\$1,672,166	\$6,770,981	\$5,819,466

### Governmental Activities

Net assets of the City's governmental activities increased \$157,883 or 4% from the previous year. Charges for services and sales increased due partly to increases in receipts for ambulance services. Operating grants and contributions increased due to increases in Community Housing Improvement Program (CHIP) grants. State contributions for infrastructure work in 2006 resulted in the decrease in capital grants and contributions in 2007. Enforcing estimated tax payment procedures resulted in the increase in income tax revenues. Decreases in amounts spent from the CHIP program resulted in decreases in community environment. Street maintenance at the cemetery resulted in the increase in expenditures for public health and welfare.

## CITY OF EAST PALESTINE, OHIO

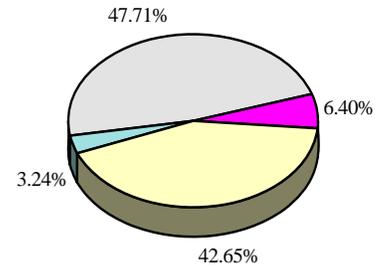
**Management's Discussion and Analysis  
For the Year Ended December 31, 2007**

**Unaudited**

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.

Income taxes and property taxes made up 36% and 12% respectively of revenues for governmental activities for the City in fiscal year 2007. The City's reliance upon tax revenues is demonstrated by the following graph indicating 48% of total revenues from general tax revenues:

Revenue Sources	2007	Percent of Total
General Tax Revenues	\$1,391,071	47.71%
Intergovernmental Revenues, Unrestricted	186,567	6.40%
Program Revenues	1,243,650	42.65%
General Other	94,599	3.24%
Total Revenue	<u>\$2,915,887</u>	<u>100.00%</u>



**Business-Type Activities**

Net assets of the business-type activities increased \$793,632. This increase was mainly the result of capital contributions received from the Department of Development.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$475,061, which is a decrease from last year's balance of \$683,791. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2006 and 2007:

	Fund Balance/Deficit December 31, 2007	Fund Balance/Deficit December 31, 2006	Increase (Decrease)
General	(\$662,291)	(\$646,448)	(\$15,843)
Electric Trust	3,123,893	3,119,393	4,500
Capital Improvement	(2,061,122)	(2,005,286)	(55,836)
Other Governmental	74,581	216,132	(141,551)
Total	<u>\$475,061</u>	<u>\$683,791</u>	<u>(\$208,730)</u>

## **CITY OF EAST PALESTINE, OHIO**

***Management's Discussion and Analysis  
For the Year Ended December 31, 2007***

***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:

	2007 Revenues	2006 Revenues	Increase (Decrease)
Taxes	\$1,115,509	\$962,351	\$153,158
Intergovernmental Revenue	184,056	176,883	7,173
Charges for Services	246,444	168,119	78,325
Licenses and Permits	79,773	75,895	3,878
Investment Earnings	14,642	21,656	(7,014)
Fines and Forfeitures	8,248	8,546	(298)
All Other Revenue	30,318	20,562	9,756
<b>Total</b>	<b>\$1,678,990</b>	<b>\$1,434,012</b>	<b>\$244,978</b>

General Fund revenues in 2007 increased approximately 17% compared to revenues in year 2006. Tax revenues increased due to increases in income taxes received. This increase can be attributed to increased enforcement of estimated tax payment requirements. Increases in revenues for ambulance runs contributed to the increase in charges for services.

	2007 Expenditures	2006 Expenditures	Increase (Decrease)
Security of Persons and Property	\$1,096,537	\$997,804	\$98,733
Public Health and Welfare	48,783	45,727	3,056
General Government	570,755	599,601	(28,846)
Capital Outlay	0	22,965	(22,965)
<b>Total</b>	<b>\$1,716,075</b>	<b>\$1,666,097</b>	<b>\$49,978</b>

General Fund expenditures in 2007 increased \$49,978 or 3% from 2006. Overall increases in salaries, benefits, supplies and purchased services in the police and fire departments resulted in the increase in security of persons and property.

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

*Capital Improvement Fund* - The Capital Improvement Fund balance decreased approximately 3% to a deficit fund balance of \$2,061,122. An interfund loan payable to the electric trust fund is the primary factor contributing to this fund's large negative fund balance.

## **CITY OF EAST PALESTINE, OHIO**

---

***Management's Discussion and Analysis  
For the Year Ended December 31, 2007***

***Unaudited***

---

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 2007 the City amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,643,856 was not significantly different from final budget estimates of \$1,639,474. Increases in tax receipts contributed to the 8% increase in final budget estimates when compared with original estimates. The General Fund had an adequate fund balance to cover expenditures.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At the end of 2007 the City had \$13,805,562 net of accumulated depreciation invested in land, buildings, improvements, equipment and vehicles. Of this total, \$4,468,795 was related to governmental activities and \$9,336,767 to the business-type activities. The following table shows fiscal year 2007 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Land	\$298,749	\$298,749	\$0
Construction In Progress	345,821	248,432	97,389
Buildings	1,850,488	1,850,488	0
Improvements Other than Buildings	131,640	124,205	7,435
Machinery and Equipment	2,690,941	2,633,817	57,124
Infrastructure	1,545,635	1,540,727	4,908
Less: Accumulated Depreciation	(2,394,479)	(2,177,270)	(217,209)
Totals	<u>\$4,468,795</u>	<u>\$4,519,148</u>	<u>(\$50,353)</u>

Increases in construction in progress can be attributed to improvements to the West Street Bridge and Park Avenue.

## CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2007**

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2007	2006	
Land	\$177,511	\$177,511	\$0
Construction in Progress	405,502	0	405,502
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	452,160	450,250	1,910
Machinery and Equipment	1,290,127	1,292,778	(2,651)
Infrastructure	9,951,040	9,883,619	67,421
Less: Accumulated Depreciation	(4,912,780)	(4,540,236)	(372,544)
Totals	\$9,336,767	\$9,237,129	\$99,638

The primary increase occurred in construction in progress which can be attributed to water and sewer improvements to Brookdale Avenue. Additional information on the City's capital assets can be found in Note 8.

**Debt**

At December 31, 2007, the City had \$3,585,000 in general obligation bonds outstanding, \$160,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2007 and 2006:

	2007	2006
Governmental Activities:		
Ohio Public Works Commission Loan	\$26,826	\$16,588
West Street Bridge Project Loan	265,000	265,000
ODOT Street Improvement Loan	692,739	666,914
Capital Leases	255,640	294,279
Compensated Absences	163,297	216,386
Total Governmental Activities	1,403,502	1,459,167
Business-Type Activities:		
General Obligation Bonds	3,585,000	3,735,000
Ohio Public Works Commission Loans	528,550	505,875
Ohio Water Development Authority Loans	3,344,319	3,405,173
Compensated Absences	158,196	70,196
Total Business-Type Activities	7,616,065	7,716,244
Totals	\$9,019,567	\$9,175,411

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, 2007, 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, 2007***

***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 the northwest side of town. On the northeast side of town a housing development with 21 lots is underway. New business development included a Photography Studio, Meat Market and many other small businesses. A nursing home development will break ground on the north side of town in 2008 and will create 50 jobs starting sometime in 2008 or 2009

The City's 2008 budget is very conservative.

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.

This Page Intentionally Left Blank

**CITY OF EAST PALESTINE, OHIO**

**Statement of Net Assets**  
**December 31, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 239,965	\$ 121,102	\$ 361,067
Investments	33,111	0	33,111
Receivables:			
Taxes	759,682	0	759,682
Accounts	63,076	194,772	257,848
Intergovernmental	720,885	750,000	1,470,885
Special Assessments	3,743	4,784	8,527
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	5,172	19,317	24,489
Prepaid Items	32,769	9,211	41,980
Capital Assets, Net	4,468,795	9,336,767	13,805,562
<b>Total Assets</b>	<u>6,362,198</u>	<u>10,400,953</u>	<u>16,763,151</u>
<b>Liabilities:</b>			
Accounts Payable	65,947	239,118	305,065
Accrued Wages and Benefits	151,000	43,088	194,088
Intergovernmental Payable	594	2,600	3,194
Deferred Revenue	416,677	0	416,677
Accrued Interest Payable	19,295	34,284	53,579
Noncurrent liabilities:			
Due within one year	484,073	423,997	908,070
Due in more than one year	919,429	7,192,068	8,111,497
<b>Total Liabilities</b>	<u>2,057,015</u>	<u>7,935,155</u>	<u>9,992,170</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	3,228,590	1,878,898	5,107,488
Restricted For:			
Debt Service	19,038	0	19,038
Other Purposes	3,725,601	0	3,725,601
Unrestricted (Deficit)	(2,668,046)	586,900	(2,081,146)
<b>Total Net Assets</b>	<u>\$ 4,305,183</u>	<u>\$ 2,465,798</u>	<u>\$ 6,770,981</u>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2007**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 1,226,581	\$ 258,353	\$ 20,006	\$ 0
Leisure Time Activities	300,080	86,501	6,926	0
Community Environment	221,301	0	500,059	0
Public Health and Welfare	116,221	36,147	0	0
Transportation	400,558	0	269,014	0
General Government	629,402	66,644	0	0
Interest and Fiscal Charges	9,861	0	0	0
<b>Total Governmental Activities</b>	<b>2,904,004</b>	<b>447,645</b>	<b>796,005</b>	<b>0</b>
<b>Business-Type Activities:</b>				
Water	443,614	522,649	0	549,600
Wastewater	1,023,431	1,084,428	0	250,000
<b>Total Business-Type Activities</b>	<b>1,467,045</b>	<b>1,607,077</b>	<b>0</b>	<b>799,600</b>
<b>Totals</b>	<b>\$ 4,371,049</b>	<b>\$ 2,054,722</b>	<b>\$ 796,005</b>	<b>\$ 799,600</b>

**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
\$ (948,222)	\$ 0	\$ (948,222)
(206,653)	0	(206,653)
278,758	0	278,758
(80,074)	0	(80,074)
(131,544)	0	(131,544)
(562,758)	0	(562,758)
(9,861)	0	(9,861)
<u>(1,660,354)</u>	<u>0</u>	<u>(1,660,354)</u>
0	628,635	628,635
<u>0</u>	<u>310,997</u>	<u>310,997</u>
<u>0</u>	<u>939,632</u>	<u>939,632</u>
<u>(1,660,354)</u>	<u>939,632</u>	<u>(720,722)</u>
118,882	0	118,882
231,649	0	231,649
1,040,054	0	1,040,054
486	0	486
186,567	0	186,567
17,537	0	17,537
77,062	0	77,062
<u>146,000</u>	<u>(146,000)</u>	<u>0</u>
<u>1,818,237</u>	<u>(146,000)</u>	<u>1,672,237</u>
157,883	793,632	951,515
<u>4,147,300</u>	<u>1,672,166</u>	<u>5,819,466</u>
<u>\$ 4,305,183</u>	<u>\$ 2,465,798</u>	<u>\$ 6,770,981</u>

**CITY OF EAST PALESTINE, OHIO**

---

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2007**

---

	<u>General</u>	<u>Electric Trust</u>	<u>Capital Improvement</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 18,692	\$ 94,115	\$ 25,376
Investments	0	0	0
Receivables:			
Taxes	399,683	0	0
Accounts	62,851	0	0
Intergovernmental	73,842	0	0
Special Assessments	0	0	0
Interfund Loans Receivables	0	3,029,778	0
Inventory of Supplies, at Cost	0	0	0
Prepaid Items	32,769	0	0
<b>Total Assets</b>	<u>\$ 587,837</u>	<u>\$ 3,123,893</u>	<u>\$ 25,376</u>
<b>Liabilities:</b>			
Accounts Payable	\$ 35,967	\$ 0	\$ 13,536
Accrued Wages and Benefits Payable	118,921	0	0
Intergovernmental Payable	594	0	0
Interfund Loans Payable	834,770	0	2,072,962
Deferred Revenue	259,876	0	0
<b>Total Liabilities</b>	<u>1,250,128</u>	<u>0</u>	<u>2,086,498</u>
<b>Fund Balance:</b>			
Reserved for Encumbrances	3,155	0	5,002
Reserved for Prepaid Items	32,769	0	0
Reserved for Supplies Inventory	0	0	0
Reserved for Endowments	0	0	0
Undesignated, Unreserved in:			
General Fund (Deficit)	(698,215)	0	0
Special Revenue Funds (Deficit)	0	3,123,893	0
Debt Service Fund	0	0	0
Capital Project Funds (Deficit)	0	0	(2,066,124)
<b>Total Fund Balance</b>	<u>(662,291)</u>	<u>3,123,893</u>	<u>(2,061,122)</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 587,837</u>	<u>\$ 3,123,893</u>	<u>\$ 25,376</u>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

---

Other Governmental Funds	Total Governmental Funds
\$ 101,782	\$ 239,965
33,111	33,111
359,999	759,682
225	63,076
647,043	720,885
3,743	3,743
0	3,029,778
5,172	5,172
0	32,769
\$ 1,151,075	\$ 4,888,181
\$ 16,444	\$ 65,947
32,079	151,000
0	594
87,046	2,994,778
940,925	1,200,801
1,076,494	4,413,120
16,229	24,386
0	32,769
5,172	5,172
33,111	33,111
0	(698,215)
(4,757)	3,119,136
19,038	19,038
5,788	(2,060,336)
74,581	475,061
\$ 1,151,075	\$ 4,888,181

**CITY OF EAST PALESTINE, OHIO**

---

***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2007***

---

<b>Total Governmental Fund Balances</b>	\$	475,061
<b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		4,468,795
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		784,124
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	(163,297)	
OPWC Loan Payable	(26,826)	
West Street Bridge Project Loan	(265,000)	
ODOT Loan	(692,739)	
Capital Leases	(255,640)	
Accrued Interest Payable	(19,295)	
	<u>                    </u>	<u>(1,422,797)</u>
<b><i>Net Assets of Governmental Activities</i></b>	<b>\$</b>	<b><u>4,305,183</u></b>

See accompanying notes to the basic financial statements

This Page Intentionally Left Blank

**CITY OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2007**

	<u>General</u>	<u>Electric Trust</u>	<u>Capital Improvement</u>
<b>Revenues:</b>			
Taxes	\$ 1,115,509	\$ 0	\$ 0
Intergovernmental Revenues	184,056	0	0
Charges for Services	246,444	0	0
Licenses and Permits	79,773	0	0
Investment Earnings	14,642	0	0
Fines and Forfeitures	8,248	0	0
All Other Revenue	30,318	4,500	11,125
<b>Total Revenue</b>	<u>1,678,990</u>	<u>4,500</u>	<u>11,125</u>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	1,096,537	0	0
Public Health and Welfare	48,783	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Transportation	0	0	0
General Government	570,755	0	0
Capital Outlay	0	0	190,044
Debt Service:			
Interest & Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<u>1,716,075</u>	<u>0</u>	<u>190,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(37,085)	4,500	(178,919)
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	300	0	0
Ohio Public Works Commission Loan	0	0	0
Ohio Department of Transportation Loan	0	0	25,825
Other Financing Sources - Capital Lease	0	0	0
Transfers In	146,000	0	97,258
Transfers Out	(125,058)	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>21,242</u>	<u>0</u>	<u>123,083</u>
Net Change in Fund Balance	(15,843)	4,500	(55,836)
<b>Fund Balance (Deficit) at Beginning of Year</b>	(646,448)	3,119,393	(2,005,286)
Decrease in Inventory Reserve	0	0	0
<b>Fund Balance (Deficit) End of Year</b>	<u>\$ (662,291)</u>	<u>\$ 3,123,893</u>	<u>\$ (2,061,122)</u>

See accompanying notes to the basic financial statements

***CITY OF EAST PALESTINE, OHIO***

---

Other Governmental Funds	Total Governmental Funds
\$ 216,248	\$ 1,331,757
490,716	674,772
110,919	357,363
0	79,773
2,895	17,537
2,261	10,509
27,376	73,319
850,415	2,545,030
14,321	1,110,858
67,159	115,942
259,243	259,243
221,301	221,301
341,874	341,874
203	570,958
180,685	370,729
305	305
1,085,091	2,991,210
(234,676)	(446,180)
0	300
10,238	10,238
0	25,825
58,000	58,000
47,800	291,058
(20,000)	(145,058)
96,038	240,363
(138,638)	(205,817)
216,132	683,791
(2,913)	(2,913)
\$ 74,581	\$ 475,061

**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, 2007***

---

**Net Change in Fund Balances - Total Governmental Funds** \$ (205,817)

***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 depreciation exceeded capital outlays in the current period.

Capital Outlay	178,929	
Depreciation Expense	<u>(229,282)</u>	(50,353)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 370,857

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	(10,238)	
ODOT Loan	(25,825)	
New Capital Lease	<u>(58,000)</u>	(94,063)

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		96,639
-----------------------	--	--------

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (9,556)

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	53,089	
Change in Inventory	<u>(2,913)</u>	50,176

***Change in Net Assets of Governmental Activities*** \$ 157,883

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, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 964,091	\$ 1,044,456	\$ 1,078,401	\$ 33,945
Intergovernmental Revenue	187,155	202,756	188,457	(14,299)
Charges for Services	236,636	256,362	246,319	(10,043)
Licenses and Permits	76,152	82,500	78,722	(3,778)
Investment Earnings	23,076	25,000	14,642	(10,358)
Fines and Forfeitures	10,154	11,000	8,036	(2,964)
All Other Revenues	16,062	17,400	29,279	11,879
Total Revenues	<u>1,513,326</u>	<u>1,639,474</u>	<u>1,643,856</u>	<u>4,382</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	983,479	1,074,649	1,074,632	17
Public Health and Welfare	44,666	48,807	47,145	1,662
General Government	537,540	587,371	586,311	1,060
Total Expenditures	<u>1,565,685</u>	<u>1,710,827</u>	<u>1,708,088</u>	<u>2,739</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(52,359)	(71,353)	(64,232)	7,121
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	1,500	1,500	300	(1,200)
Transfers In	158,000	158,000	146,000	(12,000)
Transfers Out	(125,058)	(125,058)	(125,058)	0
Advances In	16,770	16,770	16,770	0
Total Other Financing Sources (Uses):	<u>51,212</u>	<u>51,212</u>	<u>38,012</u>	<u>(13,200)</u>
Net Change in Fund Balance	(1,147)	(20,141)	(26,220)	(6,079)
Fund Balance at Beginning of Year	<u>35,592</u>	<u>35,592</u>	<u>35,592</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 34,445</u>	<u>\$ 15,451</u>	<u>\$ 9,372</u>	<u>\$ (6,079)</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 - Electric Trust Fund  
For the Year Ended December 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
All Other Revenues	\$ 100,000	\$ 100,000	\$ 4,500	\$ (95,500)
Total Revenues	100,000	100,000	4,500	(95,500)
<b>Expenditures:</b>				
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	100,000	100,000	4,500	(95,500)
<b>Other Financing Sources (Uses):</b>				
Advances Out	(16,000)	(16,770)	(16,770)	0
Total Other Financing Sources (Uses):	(16,000)	(16,770)	(16,770)	0
Net Change in Fund Balance	84,000	83,230	(12,270)	(95,500)
Fund Balance at Beginning of Year	106,385	106,385	106,385	0
Fund Balance at End of Year	\$ 190,385	\$ 189,615	\$ 94,115	\$ (95,500)

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2007**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 65,698	\$ 55,404	\$ 121,102
Receivables:			
Accounts	60,405	134,367	194,772
Intergovernmental	500,000	250,000	750,000
Special Assessments	1,435	3,349	4,784
Inventory of Supplies at Cost	15,049	4,268	19,317
Prepaid Items	4,166	5,045	9,211
<b>Total Current Assets</b>	<b>646,753</b>	<b>452,433</b>	<b>1,099,186</b>
Noncurrent Assets:			
Capital Assets, Net	1,410,651	7,926,116	9,336,767
<b>Total Noncurrent Assets</b>	<b>1,410,651</b>	<b>7,926,116</b>	<b>9,336,767</b>
<b>Total Assets</b>	<b>2,057,404</b>	<b>8,378,549</b>	<b>10,435,953</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	173,445	65,673	239,118
Accrued Wages and Benefits	15,833	27,255	43,088
Intergovernmental Payable	0	2,600	2,600
Compensated Absences Payable - Current	12,590	12,498	25,088
Accrued Interest Payable	7,677	26,607	34,284
General Obligation Bonds Payable - Current	6,930	153,070	160,000
OWDA Loans Payable - Current	41,525	167,514	209,039
OPWC Loans Payable - Current	2,920	26,950	29,870
<b>Total Current Liabilities</b>	<b>260,920</b>	<b>482,167</b>	<b>743,087</b>
Noncurrent Liabilities:			
General Obligation Bonds Payable	91,935	3,333,065	3,425,000
OWDA Loans Payable	253,773	2,881,507	3,135,280
OPWC Loans Payable	27,732	470,948	498,680
Interfund Loan Payable	10,000	25,000	35,000
Compensated Absences Payable	70,774	62,334	133,108
<b>Total noncurrent liabilities</b>	<b>454,214</b>	<b>6,772,854</b>	<b>7,227,068</b>
<b>Total Liabilities</b>	<b>715,134</b>	<b>7,255,021</b>	<b>7,970,155</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	985,836	893,062	1,878,898
Unrestricted	356,434	230,466	586,900
<b>Total Net Assets</b>	<b>\$ 1,342,270</b>	<b>\$ 1,123,528</b>	<b>\$ 2,465,798</b>

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, 2007**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>Operating Revenues:</b>			
Charges for Services	\$ 522,034	\$ 1,082,992	\$ 1,605,026
<b>Total Operating Revenues</b>	<u>522,034</u>	<u>1,082,992</u>	<u>1,605,026</u>
<b>Operating Expenses:</b>			
Personal Services	215,368	306,034	521,402
Contractual Services	85,336	144,344	229,680
Materials and Supplies	44,365	39,140	83,505
Depreciation	77,371	309,177	386,548
<b>Total Operating Expenses</b>	<u>422,440</u>	<u>798,695</u>	<u>1,221,135</u>
<b>Operating Income</b>	99,594	284,297	383,891
<b>Non-Operating Revenue (Expenses):</b>			
Interest and Fiscal Charges	(21,174)	(224,736)	(245,910)
Other Nonoperating Revenue	615	1,436	2,051
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(20,559)</u>	<u>(223,300)</u>	<u>(243,859)</u>
<b>Income Before Transfers and Contributions</b>	79,035	60,997	140,032
Transfers-In	0	16,331	16,331
Transfers-Out	(92,331)	(70,000)	(162,331)
Capital Contributions	549,600	250,000	799,600
<b>Total Transfers and Contributions</b>	<u>457,269</u>	<u>196,331</u>	<u>653,600</u>
<b>Change in Net Assets</b>	536,304	257,328	793,632
<b>Net Assets Beginning of Year</b>	805,966	866,200	1,672,166
<b>Net Assets End of Year</b>	<u>\$ 1,342,270</u>	<u>\$ 1,123,528</u>	<u>\$ 2,465,798</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, 2007**

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$516,479	\$1,084,077	\$1,600,556
Cash Payments for Goods and Services	(139,099)	(202,781)	(341,880)
Cash Payments to Employees	(166,166)	(250,625)	(416,791)
Net Cash Provided by Operating Activities	<u>211,214</u>	<u>630,671</u>	<u>841,885</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers Out to Other Funds	(76,000)	(70,000)	(146,000)
Net Cash Used by Noncapital Financing Activities	<u>(76,000)</u>	<u>(70,000)</u>	<u>(146,000)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(231,321)	(95,881)	(327,202)
Capital Contributions	208,649	84,437	293,086
Principal Paid on Ohio Water Development Authority Loan	(41,525)	(165,170)	(206,695)
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	(29,847)	(218,532)	(248,379)
Net Cash Used by Capital and Related Financing Activities	<u>(112,714)</u>	<u>(556,346)</u>	<u>(669,060)</u>
Net Increase in Cash and Cash Equivalents	22,500	4,325	26,825
Cash and Cash Equivalents at Beginning of Year	43,198	51,079	94,277
Cash and Cash Equivalents at End of Year	<u>\$65,698</u>	<u>\$55,404</u>	<u>\$121,102</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$99,594	\$284,297	\$383,891
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	77,371	309,177	386,548
Miscellaneous Nonoperating Revenue	615	1,436	2,051
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(4,735)	2,998	(1,737)
Increase in Special Assessment Receivable	(1,435)	(3,349)	(4,784)
Increase in Inventory	(4,808)	(2,628)	(7,436)
Increase in Prepaid Items	(3,339)	(3,195)	(6,534)
Decrease in Accounts Payable	(1,020)	(13,559)	(14,579)
Increase in Accrued Wages and Benefits	5,574	11,131	16,705
Decrease in Intergovernmental Payable	(240)	0	(240)
Increase in Compensated Absences	43,637	44,363	88,000
Total Adjustments	<u>111,620</u>	<u>346,374</u>	<u>457,994</u>
Net Cash Provided by Operating Activities	<u>\$211,214</u>	<u>\$630,671</u>	<u>\$841,885</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, 2007***

---

#### **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, 2007***

---

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

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

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 other than those accounted for in the Water and Wastewater funds.

***Proprietary Funds*** - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. 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, 2007***

---

#### **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, 2007***

---

#### **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, 2007 but which are not intended to finance 2007 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, 2007***

---

#### **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 2007.

## ***CITY OF EAST PALESTINE, OHIO***

---

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

---

#### **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 2007, 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, 2007***

---

**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	Electric Trust Fund
GAAP Basis (as reported)	(\$15,843)	\$4,500
Increase (Decrease):		
Accrued Revenues at December 31, 2007 received during 2008	(276,500)	(3,029,778)
Accrued Revenues at December 31, 2006 received during 2007	241,366	3,013,008
Accrued Expenditures at December 31, 2007 paid during 2008	172,252	0
Accrued Expenditures at December 31, 2006 paid during 2007	(136,406)	0
2006 Prepays for 2007	31,000	0
2007 Prepays for 2008	(32,769)	0
Outstanding Encumbrances	(9,320)	0
Budget Basis	(\$26,220)	(\$12,270)

**F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, the State Treasurer's Asset Reserve (STAR Ohio) and repurchase agreements. 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, 2007***

---

#### **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 2007. 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, 2007. See Note 3, "Cash, Cash Equivalents and Investments."

##### **H. Inventory**

On the government-wide financial statements and in the proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

##### **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, 2007**

---

**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, 2007***

---

#### **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, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the Government-wide Statements under Long-term Liabilities.

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 or 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, 2007***

---

#### **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 2007.

## **CITY OF EAST PALESTINE, OHIO**

---

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

---

#### **NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

**Fund Deficits** - The fund deficits at December 31, 2007 of \$662,291 in the General Fund, \$9,270 in the Parks and Recreation Fund, \$87,046 in the Downtown Revitalization Fund (special revenue funds), \$2,061,122 in the Capital Improvement Fund and \$395 in the Police Levy Capital Improvement Fund (capital projects funds) 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, 2007***

---

#### **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, 2007**

---

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

**A. Deposits (Continued)**

At year end the carrying amount of the City's deposits was \$146,754 and the bank balance was \$153,354. Federal depository insurance covered \$104,661 of the bank balance and \$48,693 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	\$48,693
Total Balance	\$48,693

Investment earnings of \$16,629 earned by other funds were credited to the General Fund as required by state statute.

**B. Investments**

The City's investments at December 31, 2007 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	\$53,584	AAAm <sup>1</sup>	\$53,584	\$0	\$0
Repurchase Agreement	193,840	N/A	193,840	0	0
Total Investments	\$247,424		\$247,424	\$0	\$0

<sup>1</sup> 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, 2007**

---

**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.

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$361,067	\$33,111
Certificates of Deposit (with maturities of more than 3 months)	33,111	(33,111)
Investments:		
STAR Ohio	(53,584)	53,584
Repurchase Agreement	(193,840)	193,840
Per GASB Statement No. 3	<u>\$146,754</u>	<u>\$247,424</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 2007 were levied after October 1, 2006 on assessed values as of January 1, 2006 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. In prior years, tangible personal property used in business (except for public utilities) was assessed for ad valorem taxation purposes at 25 percent of its true value. As part of a phase out of the personal property tax, the assessment percentage for personal property was reduced to 12.5 percent in 2007. The rate will be reduced to 6.25 percent for 2008 and finally to zero in 2009. 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, 2007***

---

#### **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, 2007 was \$6.90 per \$1,000 of assessed value. The assessed value upon which the 2007 tax receipts were based was \$61,948,280. This amount constitutes \$56,229,770 in real property assessed value, \$2,758,590 in public utility assessed value, and \$2,959,920 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, 2007 consisted of taxes, accounts receivable, special assessments receivable, interfund receivables and intergovernmental receivables.

**CITY OF EAST PALESTINE, OHIO**

---

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

---

**NOTE 6 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2007:

Fund	Transfer In	Transfer Out
General Fund	\$146,000	\$125,058
Capital Improvement Fund	97,258	0
Other Governmental Funds	47,800	20,000
Total Governmental Funds	291,058	145,058
Water Fund	0	92,331
Wastewater Fund	16,331	70,000
Total Proprietary Funds	16,331	162,331
Totals	\$307,389	\$307,389

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of interfund loans receivable and payable for all funds for 2007:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$0	\$834,770
Electric Trust Fund	3,029,778	0
Capital Improvement Fund	0	2,072,962
Other Governmental Funds	0	87,046
Total Governmental Funds	3,029,778	2,994,778
Water Fund	0	10,000
Wastewater Fund	0	25,000
Total Proprietary Funds	0	35,000
Totals	\$3,029,778	\$3,029,778

**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2007:

*Historical Cost:*

Class	December 31, 2006	Additions	Deletions	December 31, 2007
<i>Capital assets not being depreciated:</i>				
Land	\$298,749	\$0	\$0	\$298,749
Construction in Progress	248,432	97,389	0	345,821
Subtotal	<u>547,181</u>	<u>97,389</u>	<u>0</u>	<u>644,570</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,850,488	0	0	1,850,488
Improvements Other than Buildings	124,205	7,435	0	131,640
Machinery and Equipment	2,633,817	69,197	(12,073)	2,690,941
Infrastructure	1,540,727	4,908	0	1,545,635
Subtotal	<u>6,149,237</u>	<u>81,540</u>	<u>(12,073)</u>	<u>6,218,704</u>
Total Cost	<u><u>\$6,696,418</u></u>	<u><u>\$178,929</u></u>	<u><u>(\$12,073)</u></u>	<u><u>\$6,863,274</u></u>
<i>Accumulated Depreciation:</i>				
Class	December 31, 2006	Additions	Deletions	December 31, 2007
Buildings	(\$602,767)	(\$37,551)	\$0	(\$640,318)
Improvements Other than Buildings	(32,893)	(5,757)	0	(38,650)
Machinery and Equipment	(1,483,104)	(144,449)	12,073	(1,615,480)
Infrastructure	(58,506)	(41,525)	0	(100,031)
Total Depreciation	<u><u>(\$2,177,270)</u></u>	<u><u>(\$229,282) *</u></u>	<u><u>\$12,073</u></u>	<u><u>(\$2,394,479)</u></u>
<i>Net Value:</i>	<u><u>\$4,519,148</u></u>			<u><u>\$4,468,795</u></u>

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$108,804
Leisure Time Activities	36,744
Transportation	58,342
General Government	25,392
Total Depreciation Expense	<u><u>\$229,282</u></u>

**CITY OF EAST PALESTINE, OHIO**

---

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

---

**NOTE 8 - CAPITAL ASSETS (Continued)**

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2007:

**Historical Cost:**

Class	December 31, 2006	Additions	Deletions	December 31, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	0	405,502	0	405,502
Subtotal	<u>177,511</u>	<u>405,502</u>	<u>0</u>	<u>583,013</u>
<b>Capital assets being depreciated:</b>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	450,250	1,910	0	452,160
Machinery and Equipment	1,292,778	11,353	(14,004)	1,290,127
Infrastructure	9,883,619	67,421	0	9,951,040
Subtotal	<u>13,599,854</u>	<u>80,684</u>	<u>(14,004)</u>	<u>13,666,534</u>
Total Cost	<u>\$13,777,365</u>	<u>\$486,186</u>	<u>(\$14,004)</u>	<u>\$14,249,547</u>

**Accumulated Depreciation:**

Class	December 31, 2006	Additions	Deletions	December 31, 2007
Buildings	(\$1,133,745)	(\$49,330)	\$0	(\$1,183,075)
Improvements Other than Buildings	(253,329)	(8,833)	0	(262,162)
Machinery and Equipment	(1,010,910)	(109,464)	14,004	(1,106,370)
Infrastructure	(2,142,252)	(218,921)	0	(2,361,173)
Total Depreciation	<u>(\$4,540,236)</u>	<u>(\$386,548)</u>	<u>\$14,004</u>	<u>(\$4,912,780)</u>

**Net Value:**

	<u>\$9,237,129</u>			<u>\$9,336,767</u>
--	--------------------	--	--	--------------------

## ***CITY OF EAST PALESTINE, OHIO***

---

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

---

#### **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 OPERS, Attention: Finance Director, 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 2007, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.5%. The 2007 employer contribution rate for local government employer units was 13.85%, of covered payroll. From January 1 through June 30, 2007, 8.85% was allocated to fund the pension and 5.0% to fund health care and from July 1, 2007 through December 31, 2007, 7.85% was allocated to fund the pension and 6.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2007, 2006, and 2005 were \$143,360, \$140,147 and \$157,023, 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, 2007***

---

#### **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 2007 employer contribution rate (identified above) that was used to fund health care was 5.0% from January 1 through June 30, 2007 and 6.0% from July 1 through December 31, 2007, of covered payroll which amounted to \$57,079.

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, 2006. 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 2006 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 5% for the next 8 years. In subsequent years (9 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 374,979. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2006 is \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed 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, 2007***

---

#### **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, 2007, 2006, and 2005 were \$56,572, \$54,661 and \$54,962 for police and \$12,200, \$11,689 and \$12,105 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 2007 covered payroll that was used to fund postemployment health care benefits was \$19,583 representing 6.75% of covered payroll for police and \$3,431 representing 6.75% 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, 2006, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 14,120 for police and 10,563 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, 2006 were \$120,373,722, which was net of member contributions of \$58,532,848.

**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

**NOTE 10 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 2007 were as follows:

		Balance December 31, 2006	Additions	Deductions	Balance December 31, 2007	Amount Due Within One Year
<b>Governmental Activities:</b>						
Ohio Public Works Commission Loan:						
Bridge Replacement	2005	\$16,588	\$10,238	\$0	\$26,826	\$0
West Street Bridge Project Loan	2005	265,000	0	0	265,000	265,000
Ohio Department of Transportation						
Street Improvement Loan	2005	666,914	25,825	0	692,739	75,673
Capital Leases		294,279	58,000	(96,639)	255,640	105,280
Compensated Absences Payable		216,386	163,297	(216,386)	163,297	38,120
Total Governmental Activities		<u>1,459,167</u>	<u>257,360</u>	<u>(313,025)</u>	<u>1,403,502</u>	<u>484,073</u>
<b>Business-Type Activities:</b>						
General Obligation Bonds:						
Various Purpose Bond	1999	1,680,000	0	(105,000)	1,575,000	110,000
Sewerage System Refunding Bond	2003	2,055,000	0	(45,000)	2,010,000	50,000
Total General Obligation Bonds:		<u>3,735,000</u>	<u>0</u>	<u>(150,000)</u>	<u>3,585,000</u>	<u>160,000</u>
Ohio Public Works Commission Loan:						
Waterline Improvement	2000	7,300	0	(2,920)	4,380	2,920
Phase Five Sanitary Sewer	2005	498,575	0	(26,950)	471,625	26,950
Brookdale Water and Sewer	2007	0	52,545	0	52,545	0
Total OPWC Loans:		<u>505,875</u>	<u>52,545</u>	<u>(29,870)</u>	<u>528,550</u>	<u>29,870</u>
Ohio Water Development Authority Loans:						
Water Treatment Plant	1992	249,146	0	(41,525)	207,621	41,525
Sewer Project - Phase Two	1999	892,827	0	(57,474)	835,353	58,746
Wastewater Treatment Plant	2004	2,263,200	0	(107,696)	2,155,504	108,768
Waterline Extension	2007	0	87,677	0	87,677	0
Sewer Line Extension	2007	0	58,164	0	58,164	0
Total OWDA Loans:		<u>3,405,173</u>	<u>145,841</u>	<u>(206,695)</u>	<u>3,344,319</u>	<u>209,039</u>
Compensated Absences		<u>70,196</u>	<u>158,196</u>	<u>(70,196)</u>	<u>158,196</u>	<u>25,088</u>
Total Business-Type Activities		<u>7,716,244</u>	<u>356,582</u>	<u>(456,761)</u>	<u>7,616,065</u>	<u>423,997</u>
Totals		<u><u>\$9,175,411</u></u>	<u><u>\$613,942</u></u>	<u><u>(\$769,786)</u></u>	<u><u>\$9,019,567</u></u>	<u><u>\$908,070</u></u>

**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

**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, 2007, follows:

Years	OPWC Loan		West Street Bridge Loan		ODOT Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$29,870	\$0	\$265,000	\$11,687	\$75,673	\$22,371
2009	28,410	0	0	0	77,960	20,083
2010	26,950	0	0	0	80,316	17,727
2011	26,950	0	0	0	82,744	15,300
2012	26,950	0	0	0	85,245	12,799
2013-2017	134,750	0	0	0	290,801	22,623
2018-2022	134,750	0	0	0	0	0
2023-2027	146,746	0	0	0	0	0
2028-2031	0	0	0	0	0	0
<b>Totals</b>	<b>\$555,376</b>	<b>\$0</b>	<b>\$265,000</b>	<b>\$11,687</b>	<b>\$692,739</b>	<b>\$110,903</b>

Years	General Obligation Bond		OWDA Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$160,000	\$187,595	\$209,039	\$53,871	\$739,582	\$275,524
2009	165,000	178,480	212,529	48,561	483,899	247,124
2010	180,000	170,480	214,971	43,214	502,237	231,421
2011	185,000	161,755	217,451	37,827	512,145	214,882
2012	195,000	152,780	219,974	32,396	527,169	197,975
2013-2017	1,115,000	645,850	931,584	108,115	2,472,135	776,588
2018-2022	605,000	392,900	805,038	42,655	1,544,788	435,555
2023-2027	565,000	218,711	533,733	6,794	1,245,479	225,505
2028-2031	415,000	48,880	0	0	415,000	48,880
<b>Totals</b>	<b>\$3,585,000</b>	<b>\$2,157,431</b>	<b>\$3,344,319</b>	<b>\$373,433</b>	<b>\$8,442,434</b>	<b>\$2,653,454</b>

**CITY OF EAST PALESTINE, OHIO**

---

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007***

---

**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 \$2,055,000 at December 31, 2007, 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 leases together with the present value of the net minimum lease payments as of December 31, 2007:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2008	\$114,950
2009	114,950
2010	38,953
2011	<u>5,200</u>
Minimum Lease Payments	<u>274,053</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(18,413)</u>
Present value of minimum lease payments	<u><u>\$255,640</u></u>

## ***CITY OF EAST PALESTINE, OHIO***

---

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

---

#### **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 2007 through 2008 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 2007, the City of East Palestine made contributions to the Pool totaling \$76,879.

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, 2007 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, 2007***

---

**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, 2007:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
West Street Bridge Improvements	\$1,180,308	2008
Brookdale Avenue Water and Sewer Extension	1,065,622	2008

**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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2008. 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 5, 2008.

This report is intended for the information of the Mayor, City Council, management, and Auditor of State 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 5, 2008



**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 31, 2008**