

City of East Liverpool
Columbiana County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
December 30, 2012



Dave Yost • Auditor of State

Members of Council
City of East Liverpool
126 West Sixth Street
East Liverpool, Ohio 43920

We have reviewed the *Independent Auditor's Report* of the City of East Liverpool, Columbiana County, prepared by Rea & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 Liverpool is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 18, 2013

This page intentionally left blank.

City of East Liverpool
Columbiana County, Ohio
Table of Contents
December 31, 2012

	Page
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – CHIP Fund	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Police Fund	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Fire Fund	23
Statement of Fund Net Position – Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds	26
Statement of Fiduciary Assets and Liabilities – Agency Fund	28
Notes to the Basic Financial Statements	29

City of East Liverpool
Columbiana County, Ohio
Table of Contents (Continued)
December 31, 2012

	Page
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	61
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	63
Schedule of Expenditures of Federal Awards	66
Notes to the Schedule of Expenditures of Federal Awards	67
Schedule of Findings and Questioned Costs	68
Schedule of Prior Audit Findings	75

August 15, 2013

To Members of Council and Management
City of East Liverpool
Columbiana County, Ohio
126 W 6th St.
East Liverpool, Ohio 43920

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Liverpool, Columbiana County, Ohio, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Liverpool, Columbiana County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General fund, CHIP fund, Police fund and Fire fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 3 of the financial statements, during 2012, the City restated the net position balances to correct prior period errors related to capital assets and debt. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The management's discussion and analysis of the City of East Liverpool's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2012 are:

- The City's net position increased by \$8.6 million during 2012 due mainly to settlement monies received from Buckeye Water, royalties from drilling rights and an increase in income tax monies as well as to an increase in capital assets. The increase in net position also resulted from the continued pay-down of long-term obligations.
- In 2012, the City purchased various equipment and vehicles. The City also continued construction work on road improvements to St. Clair Avenue, Ambrose Avenue, McKinnon Avenue and Maine Boulevard
- The City reduced its debt by \$1.2 million in 2012. The largest single reduction was made to pay-down the land property loans with royalties received from the sale of drilling rights.

Using This Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of East Liverpool as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of East Liverpool as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2012?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

These two statements report the City's net position and the changes in net position. The changes in net position are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

The *Statement of Net Position* and the *Statement of Activities* are divided into the following categories:

- Assets
- Liabilities
- Deferred Inflows of Resources
- Net Position
- Program Revenue and Expenses
- General Revenues
- Net Position Beginning of Year and Year's End

Reporting the City of East Liverpool's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 9. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services, facilities and infrastructure provided to City residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of East Liverpool, the major funds are the general, CHIP, police, fire, capital improvements, water, sewer and incinerator funds.

Governmental Funds

Most of the City's activities are reported in the 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. Governmental funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City's major enterprise funds are the water, sewer and incinerator funds.

Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The internal service fund accounts for the City's self-insurance program covering the deductible cost of medical insurance.

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are agency funds.

The City as a Whole

The *Statement of Net Position* looks at the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$5,493,311	\$3,789,236	\$9,376,479	\$4,299,297	\$14,869,790	\$8,088,533
Capital Assets, Net	10,196,398	9,364,992	8,360,208	8,822,346	18,556,606	18,187,338
<i>Total Assets</i>	15,689,709	13,154,228	17,736,687	13,121,643	33,426,396	26,275,871
Liabilities						
Current and Other Liabilities	730,728	732,920	347,423	338,635	1,078,151	1,071,555
Long-Term Liabilities:						
Due Within One Year	848,582	1,563,329	507,445	538,666	1,356,027	2,101,995
Due in More than One Year	2,042,699	2,078,489	3,016,361	3,534,799	5,059,060	5,613,288
<i>Total Liabilities</i>	3,622,009	4,374,738	3,871,229	4,412,100	7,493,238	8,786,838
Deferred Inflows of Resources						
Property Taxes	810,258	966,577	0	0	810,258	966,577
Net Position						
Net Investment in Capital Assets	8,357,696	6,867,430	4,905,444	4,836,800	13,263,140	11,704,230
Restricted:						
Capital Projects	346,442	245,223	0	0	346,442	245,223
Debt Service	46,077	89,225	0	0	46,077	89,225
Street Maintenance and Repair	387,505	326,775	0	0	387,505	326,775
Community Development	753,772	580,657	0	0	753,772	580,657
Other Purposes	229,071	141,114	0	0	229,071	141,114
Unclaimed Monies	1,581	1,617	0	0	1,581	1,617
Unrestricted (Deficit)	1,135,298	(439,128)	8,960,014	3,872,743	10,095,312	3,433,615
<i>Total Net Position</i>	\$11,257,442	\$7,812,913	\$13,865,458	\$8,709,543	\$25,122,900	\$16,522,456

Total current and other assets for governmental activities increased due to an increase in cash and cash equivalents resulting from the collection of settlement monies from Buckeye Water and royalties from drilling rights. Net investment in capital assets for governmental activities increased due to the purchase of office equipment and vehicles as well as various road improvements. This increase was partially offset by annual depreciation. The decrease in long-term liabilities was due to the continued pay-down of long-term obligations.

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Total current and other assets for business-type activities increased due to an increase in cash and cash equivalents resulting from the collection of settlement monies from Buckeye Water. Net capital assets for business-type activities decreased due to annual depreciation. Total liabilities for business-type activities decreased due to the continued pay-down of long-term obligations.

Table 2 shows the changes in net position for the years ended December 31, 2012 and December 31, 2011.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$960,691	\$844,116	\$4,698,087	\$4,679,608	\$5,658,778	\$5,523,724
Operating Grants and Contributions	1,474,426	1,070,942	1,215	16,040	1,475,641	1,086,982
Capital Grants and Contributions	927,650	1,091,292	0	18,744	927,650	1,110,036
<i>Total Program Revenues</i>	<u>3,362,767</u>	<u>3,006,350</u>	<u>4,699,302</u>	<u>4,714,392</u>	<u>8,062,069</u>	<u>7,720,742</u>
<i>General Revenues:</i>						
Property Taxes	924,678	835,324	0	16	924,678	835,340
Income Tax	3,250,188	2,760,035	0	0	3,250,188	2,760,035
Hotel Taxes	37,042	30,098	0	0	37,042	30,098
Grants and Entitlements not Restricted to Specific Programs	207,823	211,525	0	0	207,823	211,525
Interest	1,133	1,492	788	974	1,921	2,466
Gas Royalties	1,041,351	0	112,056	0	1,153,407	0
Other	89,858	48,693	113,333	58,107	203,191	106,800
<i>Total General Revenues</i>	<u>5,552,073</u>	<u>3,887,167</u>	<u>226,177</u>	<u>59,097</u>	<u>5,778,250</u>	<u>3,946,264</u>
<i>Total Revenues</i>	<u>8,914,840</u>	<u>6,893,517</u>	<u>4,925,479</u>	<u>4,773,489</u>	<u>13,840,319</u>	<u>11,667,006</u>
<i>Program Expenses:</i>						
General Government	1,404,392	1,316,651	0	0	1,404,392	1,316,651
Security of Persons and Property	2,980,869	3,234,851	0	0	2,980,869	3,234,851
Transportation	1,048,117	534,003	0	0	1,048,117	534,003
Public Health and Welfare	181,716	168,594	0	0	181,716	168,594
Leisure Time Activities	144,687	153,846	0	0	144,687	153,846
Community and Economic Development	605,269	767,682	0	0	605,269	767,682
Interest and Fiscal Charges	123,261	79,516	0	0	123,261	79,516
Business-Type Activities	0	0	4,951,564	4,498,957	4,951,564	4,498,957
<i>Total Program Expenses</i>	<u>6,488,311</u>	<u>6,255,143</u>	<u>4,951,564</u>	<u>4,498,957</u>	<u>11,439,875</u>	<u>10,754,100</u>
Excess Revenues over (under) Expenses	2,426,529	638,374	(26,085)	274,532	2,400,444	912,906
Special Item	1,018,000	0	5,182,000	0	6,200,000	0
Increase in Net Position	3,444,529	638,374	5,155,915	274,532	8,600,444	912,906
Net Position Beginning of Year	7,812,913	7,174,539	8,709,543	8,435,011	16,522,456	15,609,550
Net Position End of Year	<u>\$11,257,442</u>	<u>\$7,812,913</u>	<u>\$13,865,458</u>	<u>\$8,709,543</u>	<u>\$25,122,900</u>	<u>\$16,522,456</u>

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Governmental Activities

Funding for the governmental activities comes from several different sources, with the most significant being the municipal income tax. Other prominent sources of revenue are property taxes, grants and entitlements, charges for services and interest.

The City's income tax rate is 1.5 percent. Both residents of the City and nonresidents who work inside the City are subject to the income tax.

Operating grants increased significantly in 2012 due mainly to an increase in CHIP grants.

Gas royalties increased due to being a new source of revenue related to the sale of drilling rights.

Security of Persons and Property, which includes police and fire services, represents the largest expense of the governmental activities. There was a decrease from 2011 due to lower personnel and materials and supplies costs for each division.

The police department is funded through the police special revenue fund. The department operates full time, 24 hours a day, 365 days a year with 17 officers and a full time Police Chief.

The fire department employs 12 full time employees, including the Fire Chief. The City is committed to maintaining a very efficient department. Regular meetings, drills and training sessions are held. There is a strong emphasis on equipment with financial planning in place for replacement on a regular basis of worn equipment. The department's functions include firefighting, emergency medical service including paramedic service, fire prevention education and investigation.

Another major expense of the City in 2012 was transportation, or the street maintenance and repair department. There was a significant increase from 2011 due to the City performing more maintenance and repair projects in 2012. The street department employs 9 full time employees who provide the City and its citizens many services which include road salting, leaf and debris pickup, paint striping and alley profiling.

Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services.

Table 3
Cost of Services

	Governmental Activities			
	Total Cost	Total Cost	Net Cost of	Net Cost of
	of Services	of Services	Services	Services
	2012	2011	2012	2011
General Government	\$1,404,392	\$1,316,651	(\$726,004)	(\$707,939)
Security of Persons and Property	2,980,869	3,234,851	(2,678,760)	(2,946,224)
Transportation	1,048,117	534,003	503,162	1,142,175
Public Health and Welfare	181,716	168,594	(96,526)	(91,717)
Leisure Time Activities	144,687	153,846	(95,756)	(105,290)
Community and Economic Development	605,269	767,682	91,601	(460,282)
Interest and Fiscal Charges	123,261	79,516	(123,261)	(79,516)
Total	\$6,488,311	\$6,255,143	(\$3,125,544)	(\$3,248,793)

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The City's Funds

The City of East Liverpool uses fund accounting as mandated by governmental legal requirements. The intent of accounting and reporting using this method is to demonstrate compliance with these finance related requirements. Information about the City's governmental funds begins on page 16.

Governmental Funds

The City's funds are accounted for using the modified accrual basis of accounting. The City focuses on its governmental funds to provide a financial picture on activities as they provide information on how the City did over a period of one year as well as where the City's funds stood at December 31, 2012. The information provided is useful to determine the City's available balances.

The City's major governmental funds are the general fund, the CHIP, police and fire special revenue funds, and the capital improvements capital projects fund. The general fund had an increase in fund balance due mainly to settlement monies received from Buckeye Water, royalties from drilling rights and an increase in income tax revenue. The CHIP fund had a decrease in fund balance resulting from community development expenditures exceeding revenues due to the timing of grant monies. The police and fire special revenue funds had increases in fund balance as expenditures remained consistent with the prior year and revenues continued to outpace expenditures. The capital improvements capital projects fund had a slight increase in fund balance as revenues and other financing sources exceeded expenditures and other financing uses.

Business-Type Funds

As mentioned earlier, the City's major business-type funds are water, sewer, and incinerator. The largest sources of operating revenue for these funds in 2012 were charges for services. In the water fund, operating revenues, a special item relating to the settlement with Buckeye Water and transfers received for billing reimbursements exceeded expenses resulting in an increase in net position. The sewer fund had an increase in net position due to increased charges for services revenue. The incinerator fund experienced a decrease in charges for services revenue due to fewer commercial and residential collections resulting in a decrease to net position.

General Fund Budgeting Highlights

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. The general fund supports many major activities such as the legislative and executive, judicial, public health and planning activities. Some police, fire, and street activities are also funded with general fund dollars. By Ordinance, these funds are transferred from the general fund to the police, fire, and street funds.

For the general fund, the final budgeted revenues were slightly lower than the original budgeted estimate. This change was mainly attributable to a decrease in estimate for income taxes and intergovernmental revenues. The final budget appropriations were slightly higher than original budgeted appropriations. This change was due mainly to an increase in the estimate for general government expenditures for various department costs.

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 4 shows the 2012 balances of capital assets compared to 2011.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$1,820,262	\$1,820,262	\$25,771	\$25,771	\$1,846,033	\$1,846,033
Construction in Progress	824,121	35,267	7,869	0	831,990	35,267
Buildings and Improvements	172,089	178,753	1,261,386	1,319,782	1,433,475	1,498,535
Improvements other than Buildings	80,159	83,797	0	0	80,159	83,797
Machinery and Equipment	941,819	831,415	906,913	1,092,264	1,848,732	1,923,679
Infrastructure	6,357,948	6,415,498	5,380,061	5,574,428	11,738,009	11,989,926
Water Lines	0	0	359,147	369,921	359,147	369,921
Sewer Lines	0	0	419,061	440,180	419,061	440,180
Totals	\$10,196,398	\$9,364,992	\$8,360,208	\$8,822,346	\$18,556,606	\$18,187,338

Total governmental capital assets increased due to the purchase of equipment and vehicles and to construction of various road improvements within the City. This increase was partially offset by annual depreciation. Total business-type capital assets decreased due to annual depreciation outpacing capital outlay. For additional information see Note 10 to the basic financial statements.

Debt

At December 31, 2012, outstanding debt is comprised of installment loans, Ohio Public Works Commission (OPWC) loans, Ohio Water Development Authority (OWDA) loans, an Ohio Department of Transportation (ODOT) loan, State Infrastructure Bank (SIB) loans, a Land Property loan, capital leases and police and fire pension liability. Table 5 summarizes all long-term debt outstanding.

City of East Liverpool, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Installment Loans	\$91,200	\$122,597	\$302,683	\$334,039	\$393,883	\$456,636
OPWC Loans	327,901	273,679	53,606	70,870	381,507	344,549
OWDA Loans	0	0	3,024,199	3,393,700	3,024,199	3,393,700
ODOT Loan	16,763	76,763	0	0	16,763	76,763
SIB Loans	690,542	750,045	0	0	690,542	750,045
Land Property Loan	550,000	1,227,058	0	0	550,000	1,227,058
Capital Leases	162,296	47,420	74,276	186,937	236,572	234,357
Police and Fire Pension	787,658	808,305	0	0	787,658	808,305
Totals	\$2,626,360	\$3,305,867	\$3,454,764	\$3,985,546	\$6,081,124	\$7,291,413

The loans in governmental activities are to finance various improvement projects and equipment purchases and are paid from property tax money in the debt service fund, the permissive tax special revenue fund and the street capital improvement and capital improvements capital projects funds. The loans in the business-type activities are for various water, sewer and incinerator improvement projects and equipment purchases, which are being paid from those funds.

The capital leases are for the lease-purchase of four copiers, police interceptor vehicles, a street department vehicle, a fire department vehicle, garbage trucks and a trash compactor. The police and fire pension liability is being paid from the police and fire special revenue funds.

For additional information see Notes 14 and 16 to the basic financial statements.

Current Financial Related Activities

In 2012, the City received \$4,428,850 in settlement monies from Buckeye Water. The final settlement agreement was reached in 2013, in which the City agreed to accept \$6,200,000 as total settlement payment. The City will receive the remaining settlement amount of \$1,771,150 in 2013.

During 2012 the City continued construction work for road improvements to St. Clair Avenue, Ambrose Avenue, McKinnon Avenue and Maine Boulevard. The City also began engineering/design work for the St. George waterline replacement project in 2012.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact the City Auditor, Kim Woomer at 126 West 6th Street, East Liverpool, Ohio 43920, by telephone at (330) 385-4224, or by email at kimwoomer2@comcast.net.

Basic Financial Statements

City of East Liverpool, Ohio

Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,954,709	\$5,306,077	\$7,260,786
Materials and Supplies Inventory	21,893	35,056	56,949
Accounts Receivable	194,502	2,233,841	2,428,343
Intergovernmental Receivable	1,112,941	0	1,112,941
Prepaid Items	74,140	30,355	104,495
Income Taxes Receivable	731,238	0	731,238
Property Taxes Receivable	1,321,411	0	1,321,411
Hotel Taxes Receivable	11,813	0	11,813
Loans Receivable	64,888	0	64,888
Special Assessments Receivable	5,776	0	5,776
Judgments Receivable	0	1,771,150	1,771,150
Nondepreciable Capital Assets	2,644,383	33,640	2,678,023
Depreciable Capital Assets, Net	7,552,015	8,326,568	15,878,583
<i>Total Assets</i>	<u>15,689,709</u>	<u>17,736,687</u>	<u>33,426,396</u>
Liabilities			
Accounts Payable	37,596	50,383	87,979
Accrued Wages	74,654	36,716	111,370
Intergovernmental Payable	256,109	89,615	345,724
Matured Compensated Absences Payable	27,706	0	27,706
Accrued Interest Payable	66,284	57,276	123,560
Vacation Benefits Payable	234,916	113,433	348,349
Claims Payable	33,463	0	33,463
Long-Term Liabilities:			
Due Within One Year	848,582	507,445	1,356,027
Due In More Than One Year	2,042,699	3,016,361	5,059,060
<i>Total Liabilities</i>	<u>3,622,009</u>	<u>3,871,229</u>	<u>7,493,238</u>
Deferred Inflows of Resources			
Property Taxes	810,258	0	810,258
Net Position			
Net Investment in Capital Assets	8,357,696	4,905,444	13,263,140
Restricted for:			
Capital Projects	346,442	0	346,442
Debt Service	46,077	0	46,077
Street Maintenance and Repair	387,505	0	387,505
Community Development	753,772	0	753,772
Other Purposes	229,071	0	229,071
Unclaimed Monies	1,581	0	1,581
Unrestricted	1,135,298	8,960,014	10,095,312
<i>Total Net Position</i>	<u>\$11,257,442</u>	<u>\$13,865,458</u>	<u>\$25,122,900</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$1,404,392	\$667,388	\$0	\$11,000
Security of Persons and Property	2,980,869	120,938	181,171	0
Transportation	1,048,117	6,935	627,694	916,650
Public Health and Welfare	181,716	69,096	16,094	0
Leisure Time Activities	144,687	48,931	0	0
Community and Economic Development	605,269	47,403	649,467	0
Interest and Fiscal Charges	123,261	0	0	0
<i>Total Governmental Activities</i>	<u>6,488,311</u>	<u>960,691</u>	<u>1,474,426</u>	<u>927,650</u>
Business-Type Activities:				
Water	2,903,788	2,462,515	0	0
Sewer	1,077,311	1,277,833	0	0
Incinerator	921,198	905,386	0	0
Other Enterprise Funds	49,267	52,353	1,215	0
<i>Total Business-Type Activities</i>	<u>4,951,564</u>	<u>4,698,087</u>	<u>1,215</u>	<u>0</u>
<i>Total - Primary Government</i>	<u>\$11,439,875</u>	<u>\$5,658,778</u>	<u>\$1,475,641</u>	<u>\$927,650</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Fire Department

 Police Department

 General Obligation Bond Retirement

Income Tax Levied for:

 General Purposes

 Capital Improvements

Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Gas Royalties

Other

Total General Revenues

Special Item - Buckeye Water Settlement

Total General Revenues and Special Item

Change in Net Position

Net Position Beginning of Year - Restated (See Note 3)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$726,004)	\$0	(\$726,004)
(2,678,760)	0	(2,678,760)
503,162	0	503,162
(96,526)	0	(96,526)
(95,756)	0	(95,756)
91,601	0	91,601
(123,261)	0	(123,261)
(3,125,544)	0	(3,125,544)
0	(441,273)	(441,273)
0	200,522	200,522
0	(15,812)	(15,812)
0	4,301	4,301
0	(252,262)	(252,262)
(3,125,544)	(252,262)	(3,377,806)
118,540	0	118,540
666,533	0	666,533
51,289	0	51,289
88,316	0	88,316
3,006,993	0	3,006,993
243,195	0	243,195
37,042	0	37,042
207,823	0	207,823
1,133	788	1,921
1,041,351	112,056	1,153,407
89,858	113,333	203,191
5,552,073	226,177	5,778,250
1,018,000	5,182,000	6,200,000
6,570,073	5,408,177	11,978,250
3,444,529	5,155,915	8,600,444
7,812,913	8,709,543	16,522,456
\$11,257,442	\$13,865,458	\$25,122,900

City of East Liverpool, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	General	CHIP	Police	Fire	Capital Improvements
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$1,098,128	\$74,018	\$61,079	\$13,593	\$77,047
Materials and Supplies Inventory	0	0	0	0	0
Accounts Receivable	194,002	0	0	500	0
Intergovernmental Receivable	79,086	581,040	8,069	46,637	0
Prepaid Items	29,082	0	15,410	15,403	0
Income Taxes Receivable	676,395	0	0	0	54,843
Property Taxes Receivable	229,325	0	54,470	854,038	0
Hotel Taxes Receivable	10,910	0	0	0	0
Loans Receivable	0	64,888	0	0	0
Special Assessments Receivable	0	0	0	0	0
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	1,581	0	0	0	0
<i>Total Assets</i>	<u>\$2,318,509</u>	<u>\$719,946</u>	<u>\$139,028</u>	<u>\$930,171</u>	<u>\$131,890</u>
Liabilities					
Accounts Payable	\$23,719	\$0	\$4,944	\$2,421	\$0
Accrued Wages	19,522	0	30,383	0	0
Intergovernmental Payable	61,976	0	104,264	66,225	0
Matured Compensated Absences	0	0	27,706	0	0
<i>Total Liabilities</i>	<u>105,217</u>	<u>0</u>	<u>167,297</u>	<u>68,646</u>	<u>0</u>
Deferred Inflows of Resources					
Property Taxes	140,736	0	32,803	524,011	0
Unavailable Revenue	458,496	547,100	23,245	363,521	26,314
<i>Total Deferred Inflows of Resources</i>	<u>599,232</u>	<u>547,100</u>	<u>56,048</u>	<u>887,532</u>	<u>26,314</u>
Fund Balances					
Nonspendable	30,663	0	15,410	15,403	0
Restricted	0	172,846	0	0	105,576
Committed	0	0	0	0	0
Assigned	28,163	0	0	0	0
Unassigned (Deficit)	1,555,234	0	(99,727)	(41,410)	0
<i>Total Fund Balances (Deficit)</i>	<u>1,614,060</u>	<u>172,846</u>	<u>(84,317)</u>	<u>(26,007)</u>	<u>105,576</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$2,318,509</u>	<u>\$719,946</u>	<u>\$139,028</u>	<u>\$930,171</u>	<u>\$131,890</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2012*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$2,446,725
		<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,196,398
\$579,240	\$1,903,105		
21,893	21,893		
0	194,502		
398,109	1,112,941		
14,245	74,140		
0	731,238		
183,578	1,321,411		
903	11,813		
0	64,888		
5,776	5,776		
0	1,581		
\$1,203,744	\$5,443,288		
		Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
		Delinquent Property Taxes	490,817
		Income Taxes	350,859
		Intergovernmental	943,183
		Special Assessments	5,776
		Total	1,790,635
		An internal service fund is used by management to charge the costs of workers' compensation to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	16,165
		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(66,284)
\$6,117	\$37,201		
24,749	74,654		
23,644	256,109		
0	27,706		
54,510	395,670		
		Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(234,916)
		Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
		Installment Loans	(91,200)
		OPWC Loans	(327,901)
		ODOT Loans	(16,763)
		SIB Loans	(690,542)
		Land Property Loan	(550,000)
		Capital Leases	(162,296)
		Compensated Absences	(264,921)
		Police and Fire Pension	(787,658)
		Total	(2,891,281)
		<i>Net Position of Governmental Activities</i>	\$11,257,442
\$1,203,744	\$5,443,288		

City of East Liverpool, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General	CHIP	Police	Fire	Capital Improvements
Revenues					
Property Taxes	\$149,751	\$0	\$34,820	\$557,562	\$0
Income Taxes	2,833,229	0	0	0	229,107
Hotel Taxes	28,397	0	0	0	0
Special Assessments	0	0	0	0	0
Intergovernmental	208,305	387,490	51,989	94,615	0
Interest	910	64	0	0	0
Licenses and Permits	460,708	0	0	125	0
Fines and Forfeitures	174,542	0	40,826	0	0
Royalties	391,351	0	0	0	650,000
Charges for Services	8,717	0	59,675	0	18,277
Contributions and Donations	0	0	0	1,000	11,000
Other	19,586	2,136	11,992	4,483	20,002
<i>Total Revenues</i>	<u>4,275,496</u>	<u>389,690</u>	<u>199,302</u>	<u>657,785</u>	<u>928,386</u>
Expenditures					
Current:					
General Government	1,279,704	0	0	0	0
Security of Persons and Property	0	0	1,906,119	1,052,133	0
Transportation	0	0	0	0	0
Public Health and Welfare	143,685	0	0	0	0
Leisure Time Activities	124,606	0	0	0	0
Community and Economic Development	104,729	472,195	0	0	0
Capital Outlay	12,480	0	0	0	162,808
Debt Service:					
Principal Retirement	4,610	0	8,851	13,590	1,275,793
Interest and Fiscal Charges	1,434	0	12,111	22,468	18,121
<i>Total Expenditures</i>	<u>1,671,248</u>	<u>472,195</u>	<u>1,927,081</u>	<u>1,088,191</u>	<u>1,456,722</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,604,248</u>	<u>(82,505)</u>	<u>(1,727,779)</u>	<u>(430,406)</u>	<u>(528,336)</u>
Other Financing Sources (Uses)					
Inception of Capital Lease	12,480	0	0	0	113,542
Proceeds of OPWC Loans	0	0	0	0	0
Proceeds of Loans	0	0	0	0	550,000
Transfers In	0	0	1,838,062	517,768	0
Transfers Out	(2,448,348)	0	0	0	(135,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,435,868)</u>	<u>0</u>	<u>1,838,062</u>	<u>517,768</u>	<u>528,542</u>
Special Item					
Buckeye Water Settlement	1,018,000	0	0	0	0
<i>Net Change in Fund Balances</i>	1,186,380	(82,505)	110,283	87,362	206
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>427,680</u>	<u>255,351</u>	<u>(194,600)</u>	<u>(113,369)</u>	<u>105,370</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,614,060</u>	<u>\$172,846</u>	<u>(\$84,317)</u>	<u>(\$26,007)</u>	<u>\$105,576</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$1,461,376
		<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
		Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:	
\$119,800	\$861,933	Capital Asset Additions	1,248,817
0	3,062,336	Current Year Depreciation	<u>(417,411)</u>
10,018	38,415		
17,023	17,023		
1,661,762	2,404,161		
159	1,133		
19,607	480,440		
171,936	387,304		
0	1,041,351	Total	831,406
6,278	92,947		
520	12,520	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
31,659	89,858	Delinquent Property Taxes	62,745
		Income Taxes	187,852
2,038,762	8,489,421	Hotel Taxes	(1,373)
		Intergovernmental	193,218
		Special Assessments	<u>(17,023)</u>
		Total	425,419
36,034	1,315,738	Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,578,194
91,028	3,049,280		
652,689	652,689	In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	(54,389)
36,821	180,506		
0	124,606	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 governmental funds:	
25,792	602,716	Vacation Benefits Payable	14,015
1,196,843	1,372,131	Compensated Absences	<u>71,030</u>
		Total	85,045
275,350	1,578,194	Other financing sources in the governmental funds increase long-term liabilities in the statement of net position.	
14,738	68,872	Inception of Capital Lease	(185,434)
2,329,295	8,944,732	Proceeds of OPWC Loans	(78,020)
		Proceeds of Loans	<u>(635,233)</u>
(290,533)	(455,311)	Total	(898,687)
59,412	185,434	The internal service funds used by management are not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	16,165
78,020	78,020		
85,233	635,233		
227,518	2,583,348		
0	(2,583,348)		
450,183	898,687		
0	1,018,000		
159,650	1,461,376		
504,917	985,349		
\$664,567	\$2,446,725		
		<i>Change in Net Position of Governmental Activities</i>	<u>\$3,444,529</u>

City of East Liverpool, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$166,346	\$146,346	\$146,143	(\$203)
Income Taxes	3,032,784	2,658,275	2,666,518	8,243
Hotel Taxes	23,000	23,000	17,487	(5,513)
Intergovernmental	290,200	256,787	238,536	(18,251)
Interest	910	910	910	0
Licenses and Permits	446,844	446,844	438,561	(8,283)
Fines and Forfeitures	161,965	161,965	163,667	1,702
Royalties	0	391,351	391,351	0
Charges for Services	10,724	10,724	8,717	(2,007)
Other	17,087	16,587	19,586	2,999
<i>Total Revenues</i>	4,149,860	4,112,789	4,091,476	(21,313)
Expenditures				
Current:				
General Government	1,273,181	1,303,578	1,300,291	3,287
Public Health and Welfare	160,227	153,527	149,032	4,495
Leisure Time Activities	124,552	132,552	127,128	5,424
Community and Economic Development	118,972	110,472	103,924	6,548
Debt Service:				
Principal Retirement	4,610	4,610	4,610	0
Interest and Fiscal Charges	1,434	1,434	1,434	0
<i>Total Expenditures</i>	1,682,976	1,706,173	1,686,419	19,754
<i>Excess of Revenues Over Expenditures</i>	2,466,884	2,406,616	2,405,057	(1,559)
Other Financing Sources (Uses)				
Advances In	14,511	14,511	14,511	0
Transfers Out	(2,558,785)	(2,491,908)	(2,448,848)	43,060
<i>Total Other Financing Sources (Uses)</i>	(2,544,274)	(2,477,397)	(2,434,337)	43,060
<i>Net Change in Fund Balance</i>	(77,390)	(70,781)	(29,280)	41,501
<i>Fund Balance Beginning of Year</i>	54,755	54,755	54,755	0
Prior Year Encumbrances Appropriated	22,112	22,112	22,112	0
<i>Fund Balance (Deficit) End of Year</i>	(\$523)	\$6,086	\$47,587	\$41,501

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
CHIP Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$891,061	\$891,061	\$384,996	(\$506,065)
Interest	140	140	64	(76)
Other	14,260	9,900	9,000	(900)
<i>Total Revenues</i>	905,461	901,101	394,060	(507,041)
Expenditures				
Current:				
Community and Economic Development	997,174	993,566	620,269	373,297
<i>Net Change in Fund Balance</i>	(91,713)	(92,465)	(226,209)	(133,744)
<i>Fund Balance Beginning of Year</i>	118,974	118,974	118,974	0
Prior Year Encumbrances Appropriated	33,179	33,179	33,179	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$60,440</u>	<u>\$59,688</u>	<u>(\$74,056)</u>	<u>(\$133,744)</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$34,015	\$34,015	\$34,121	\$106
Intergovernmental	6,815	66,595	64,722	(1,873)
Fines and Forfeitures	10,166	38,411	40,451	2,040
Charges for Services	56,250	59,675	59,675	0
Other	133	6,558	6,575	17
<i>Total Revenues</i>	107,379	205,254	205,544	290
Expenditures				
Current:				
Security of Persons and Property	1,950,222	2,014,647	1,981,130	33,517
Debt Service:				
Principal Retirement	8,851	8,851	8,851	0
Interest and Fiscal Charges	12,111	12,111	12,111	0
<i>Total Expenditures</i>	1,971,184	2,035,609	2,002,092	33,517
<i>Excess of Revenues Under Expenditures</i>	(1,863,805)	(1,830,355)	(1,796,548)	33,807
Other Financing Sources				
Transfers In	1,916,000	1,852,000	1,838,062	(13,938)
<i>Net Change in Fund Balance</i>	52,195	21,645	41,514	19,869
<i>Fund Balance (Deficit) Beginning of Year</i>	(23,187)	(23,187)	(23,187)	0
Prior Year Encumbrances Appropriated	3,686	3,686	3,686	0
<i>Fund Balance End of Year</i>	\$32,694	\$2,144	\$22,013	\$19,869

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$554,200	\$544,437	\$544,419	(\$18)
Intergovernmental	108,631	110,138	94,615	(15,523)
Licenses and Permits	100	100	125	25
Contributions and Donations	500	1,500	1,000	(500)
Other	45	4,478	4,483	5
<i>Total Revenues</i>	<u>663,476</u>	<u>660,653</u>	<u>644,642</u>	<u>(16,011)</u>
Expenditures				
Current:				
Security of Persons and Property	1,070,138	1,108,638	1,079,299	29,339
Debt Service:				
Principal Retirement	13,590	13,590	13,590	0
Interest and Fiscal Charges	22,468	22,468	22,468	0
<i>Total Expenditures</i>	<u>1,106,196</u>	<u>1,144,696</u>	<u>1,115,357</u>	<u>29,339</u>
<i>Excess of Revenues Under Expenditures</i>	(442,720)	(484,043)	(470,715)	13,328
Other Financing Sources				
Transfers In	501,500	538,623	517,768	(20,855)
<i>Net Change in Fund Balance</i>	58,780	54,580	47,053	(7,527)
<i>Fund Balance (Deficit) Beginning of Year</i>	(43,664)	(43,664)	(43,664)	0
Prior Year Encumbrances Appropriated	6,611	6,611	6,611	0
<i>Fund Balance End of Year</i>	<u>\$21,727</u>	<u>\$17,527</u>	<u>\$10,000</u>	<u>(\$7,527)</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio

Statement of Fund Net Position

Proprietary Funds

December 31, 2012

	Enterprise					Internal Service
	Water	Sewer	Incinerator	Other Enterprise Funds	Total	
Assets						
<i>Current Assets:</i>						
Equity in Pooled Cash and Cash Equivalents	\$4,395,186	\$755,382	\$144,557	\$10,952	\$5,306,077	\$50,023
Accounts Receivable	1,910,531	198,184	125,126	0	2,233,841	0
Materials and Supplies Inventory	31,696	3,360	0	0	35,056	0
Prepaid Items	12,288	12,288	5,779	0	30,355	0
Judgments Receivable	1,771,150	0	0	0	1,771,150	0
Total Current Assets	8,120,851	969,214	275,462	10,952	9,376,479	50,023
<i>Non-Current Assets:</i>						
Nondepreciable Capital Assets	24,661	8,979	0	0	33,640	0
Depreciable Capital Assets, Net	7,164,023	622,951	514,958	24,636	8,326,568	0
Total Non-Current Assets	7,188,684	631,930	514,958	24,636	8,360,208	0
Total Assets	15,309,535	1,601,144	790,420	35,588	17,736,687	50,023
Liabilities						
<i>Current Liabilities:</i>						
Accounts Payable	21,476	13,586	15,177	144	50,383	395
Accrued Wages	20,289	10,764	5,356	307	36,716	0
Intergovernmental Payable	47,707	27,003	13,583	1,322	89,615	0
Accrued Interest Payable	52,050	5,017	209	0	57,276	0
Vacation Benefits Payable	72,338	30,665	10,430	0	113,433	0
Installment Loans Payable	18,593	7,377	0	0	25,970	0
OPWC Loans Payable	17,263	0	0	0	17,263	0
OWDA Loans Payable	277,277	120,680	0	0	397,957	0
Capital Leases Payable	0	0	54,749	0	54,749	0
Compensated Absences Payable	11,506	0	0	0	11,506	0
Total Current Liabilities	538,499	215,092	99,504	1,773	854,868	395
<i>Long-Term Liabilities (net of current portion):</i>						
Installment Loans Payable	247,682	29,031	0	0	276,713	0
OPWC Loans Payable	36,343	0	0	0	36,343	0
OWDA Loans Payable	2,623,405	2,837	0	0	2,626,242	0
Capital Leases Payable	0	0	19,527	0	19,527	0
Compensated Absences Payable	48,783	4,286	4,467	0	57,536	0
Claims Payable	0	0	0	0	0	33,463
Total Long-Term Liabilities	2,956,213	36,154	23,994	0	3,016,361	33,463
Total Liabilities	3,494,712	251,246	123,498	1,773	3,871,229	33,858
Net Position						
Net Investment in Capital Assets	3,968,121	472,005	440,682	24,636	4,905,444	0
Unrestricted	7,846,702	877,893	226,240	9,179	8,960,014	16,165
Total Net Position	\$11,814,823	\$1,349,898	\$666,922	\$33,815	\$13,865,458	\$16,165

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012*

	Enterprise					Internal Service
	Water	Sewer	Incinerator	Other Enterprise Funds	Total	
Operating Revenues						
Charges for Services	\$2,462,515	\$1,277,833	\$905,386	\$52,353	\$4,698,087	\$217,442
Other	104,561	400	1,208	7,127	113,296	0
<i>Total Operating Revenues</i>	<u>2,567,076</u>	<u>1,278,233</u>	<u>906,594</u>	<u>59,480</u>	<u>4,811,383</u>	<u>217,442</u>
Operating Expenses						
Personal Services	1,361,848	658,520	485,167	34,017	2,539,552	0
Contractual Services	733,409	235,083	209,800	6,017	1,184,309	3,190
Materials and Supplies	343,715	89,043	134,843	5,973	573,574	0
Depreciation	334,585	67,719	84,317	1,871	488,492	0
Claims	0	0	0	0	0	198,087
Other	8,414	12,736	964	1,232	23,346	0
<i>Total Operating Expenses</i>	<u>2,781,971</u>	<u>1,063,101</u>	<u>915,091</u>	<u>49,110</u>	<u>4,809,273</u>	<u>201,277</u>
<i>Operating Income (Loss)</i>	<u>(214,895)</u>	<u>215,132</u>	<u>(8,497)</u>	<u>10,370</u>	<u>2,110</u>	<u>16,165</u>
Non-Operating Revenues (Expenses)						
Operating Grants	0	0	0	1,215	1,215	0
Interest	788	0	0	0	788	0
Gas Royalties	87,099	24,957	0	0	112,056	0
Other Non-Operating Revenues	37	0	0	0	37	0
Interest and Fiscal Charges	(121,817)	(14,210)	(6,107)	(157)	(142,291)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(33,893)</u>	<u>10,747</u>	<u>(6,107)</u>	<u>1,058</u>	<u>(28,195)</u>	<u>0</u>
<i>Income (Loss) before Special Items and Transfers</i>	<u>(248,788)</u>	<u>225,879</u>	<u>(14,604)</u>	<u>11,428</u>	<u>(26,085)</u>	<u>16,165</u>
Special Item	5,182,000	0	0	0	5,182,000	0
Transfers In	181,917	0	0	0	181,917	0
Transfers Out	0	(171,617)	(10,300)	0	(181,917)	0
<i>Change in Net Position</i>	<u>5,115,129</u>	<u>54,262</u>	<u>(24,904)</u>	<u>11,428</u>	<u>5,155,915</u>	<u>16,165</u>
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	<u>6,699,694</u>	<u>1,295,636</u>	<u>691,826</u>	<u>22,387</u>	<u>8,709,543</u>	<u>0</u>
<i>Net Position End of Year</i>	<u>\$11,814,823</u>	<u>\$1,349,898</u>	<u>\$666,922</u>	<u>\$33,815</u>	<u>\$13,865,458</u>	<u>\$16,165</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Enterprise					Internal Service
	Water	Sewer	Incinerator	Other Enterprise Funds	Total	
Increase (Decrease) in Cash and Cash Equivalents						
Cash Flows from Operating Activities						
Cash Received from Customers	\$2,521,372	\$1,305,721	\$929,517	\$52,353	\$4,808,963	\$0
Cash Received from Interfund Services Provided	0	0	0	0	0	217,442
Other Cash Receipts	104,561	400	1,208	7,127	113,296	0
Cash Payments to Employees for Services	(1,346,997)	(690,888)	(488,684)	(33,653)	(2,560,222)	0
Cash Payments for Goods and Services	(1,068,157)	(315,613)	(346,225)	(11,519)	(1,741,514)	(2,795)
Cash Payments for Claims	0	0	0	0	0	(164,624)
Other Cash Payments	(8,414)	(12,736)	(964)	(1,232)	(23,346)	0
<i>Net Cash Provided by Operating Activities</i>	<u>202,365</u>	<u>286,884</u>	<u>94,852</u>	<u>13,076</u>	<u>597,177</u>	<u>50,023</u>
Cash Flows from Noncapital Financing Activities						
Operating Grants	0	0	0	1,215	1,215	0
Gas Royalties	87,099	24,957	0	0	112,056	0
Other Non-Operating Revenues	37	0	0	0	37	0
Special Item	3,410,850	0	0	0	3,410,850	0
Transfers In	181,917	0	0	0	181,917	0
Advances Out	0	0	0	(255)	(255)	0
Transfers Out	0	(171,617)	(10,300)	0	(181,917)	0
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>3,679,903</u>	<u>(146,660)</u>	<u>(10,300)</u>	<u>960</u>	<u>3,523,903</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities						
Proceeds from OWDA Loans	5,047	2,837	0	0	7,884	0
Principal Paid on Installment Loans	(17,442)	(6,918)	0	(6,996)	(31,356)	0
Interest Paid on Installment Loans	(16,548)	(2,554)	0	(170)	(19,272)	0
Principal Paid on OWDA Loans	(265,887)	(111,498)	0	0	(377,385)	0
Interest Paid on OWDA Loans	(110,877)	(16,253)	0	0	(127,130)	0
Principal Paid on OPWC Loan	(17,264)	0	0	0	(17,264)	0
Principal Paid on Capital Lease	0	0	(112,661)	0	(112,661)	0
Interest Paid on Capital Lease	0	0	(6,283)	0	(6,283)	0
Payments for Capital Acquisitions	(8,743)	(16,061)	(1,550)	0	(26,354)	0
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(431,714)</u>	<u>(150,447)</u>	<u>(120,494)</u>	<u>(7,166)</u>	<u>(709,821)</u>	<u>0</u>
Cash Flows from Investing Activities						
Interest on Investments	788	0	0	0	788	0
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>3,451,342</u>	<u>(10,223)</u>	<u>(35,942)</u>	<u>6,870</u>	<u>3,412,047</u>	<u>50,023</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>943,844</u>	<u>765,605</u>	<u>180,499</u>	<u>4,082</u>	<u>1,894,030</u>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$4,395,186</u>	<u>\$755,382</u>	<u>\$144,557</u>	<u>\$10,952</u>	<u>\$5,306,077</u>	<u>\$50,023</u>

(continued)

City of East Liverpool, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2012

	Enterprise					Internal Service
	Water	Sewer	Incinerator	Other Enterprise Funds	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	(\$214,895)	\$215,132	(\$8,497)	\$10,370	\$2,110	\$16,165
Adjustments:						
Depreciation	334,585	67,719	84,317	1,871	488,492	0
<i>(Increase) Decrease in Assets:</i>						
Accounts Receivable	58,857	27,888	24,131	0	110,876	0
Prepaid Items	(600)	(600)	(200)	471	(929)	0
Materials and Supplies Inventory	(2,450)	(1,227)	0	0	(3,677)	0
<i>Increase (Decrease) in Liabilities:</i>						
Accounts Payable	12,017	10,340	(1,382)	144	21,119	395
Accrued Wages	2,617	2,245	(883)	95	4,074	0
Accrued Vacation Leave Payable	654	(3,674)	(3,756)	0	(6,776)	0
Compensated Absences Payable	10,399	(33,743)	4,467	0	(18,877)	0
Intergovernmental Payable	1,181	2,804	(3,345)	125	765	0
Claims Payable	0	0	0	0	0	33,463
<i>Total Adjustments</i>	417,260	71,752	103,349	2,706	595,067	33,858
<i>Net Cash Provided by Operating Activities</i>	<u>\$202,365</u>	<u>\$286,884</u>	<u>\$94,852</u>	<u>\$13,076</u>	<u>\$597,177</u>	<u>\$50,023</u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	\$13,653
Cash and Cash Equivalents in Segregated Accounts	<u>16,175</u>
<i>Total Assets</i>	<u><u>\$29,828</u></u>
 Liabilities	
Undistributed Monies	<u><u>\$29,828</u></u>

See accompanying notes to the basic financial statements

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 1 – Description of the City and Reporting Entity

The City of East Liverpool, Ohio, (the City) is a body politic, incorporated as a municipal corporation under the laws of the State of Ohio established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City is located in Columbiana County in Eastern Ohio on the Ohio River. The City is the second largest city in Columbiana County and was established in 1934.

The City operates under a Council-Mayor form of government. Legislative power is vested in an eight member Council, each elected for two-year terms, and other elected officials including a Mayor, Auditor, Treasurer and Law Director. The Mayor is elected to a four-year term. The Mayor appoints the department directors and public members of various boards and commissions.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of East Liverpool, this includes police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, water and water pollution control, sanitation, and general administrative services.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City is involved with the Columbiana Metropolitan Housing Authority and the Ohio Mid-Eastern Governments Association, which are defined as jointly governed organizations. These organizations are presented in Note 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Government-wide Financial Statements The statement of net position 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.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 program is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City's funds are classified as either governmental, proprietary or fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for and reported 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.

CHIP Fund The CHIP fund accounts for and reports CHIP and CDBG monies restricted for emergency home repairs, home rehabilitation, down payment assistance and new construction for qualified applicants.

Police Fund The police fund accounts for and reports restricted property taxes levied for the operation of its police department.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Fire Fund The fire fund accounts for and reports restricted property taxes levied for the operation of its fire department.

Capital Improvements Fund The capital improvements fund accounts for and reports income taxes restricted for capital construction and the acquisition of capital assets.

The other governmental funds of the City account for and report grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The following are the City's major proprietary funds:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has three major enterprise funds.

Water Fund The water fund accounts for the provision of water service to the residents and commercial users located within the City.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Incinerator Fund The incinerator fund accounts for the provision of trash disposal for the residents and commercial users located within the City.

Other enterprise funds include the swimming pool fund which accounts for concession sales and user charges and the off street parking fund which accounts for monies from parking tickets, permits and meter collections.

Internal Service Funds Internal service funds account for and report the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund is a self-insurance program fund that accounts for the deductible cost of medical insurance for City employees.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund. The agency fund is used to account for insurance reimbursements for property owners that are held by the City until condemned properties have been demolished.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide 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.

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

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. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. 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 specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, homestead and rollback, income taxes, estate taxes and intergovernmental local, state monies and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City has segregated bank accounts for monies held separate from the City's central bank account. These non-interest bearing depository accounts are reported as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City Treasury.

During fiscal year 2012, investments were limited to repurchase agreements which are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$910, which includes \$613 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activity column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activity Estimated Lives
Buildings and Improvements	10-50 years	20-50 years
Improvements Other than Buildings	7-25 years	N/A
Machinery and Equipment	5-15 years	5-10 years
Infrastructure	10-30 years	7-50 years
Water and Sewer Lines	N/A	50 years

The City's infrastructure consists of streets, sidewalks, curbs and culverts and includes infrastructure acquired prior to December 31, 1980.

Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund balance amounts are eliminated in the statement of net position.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for union employees after ten years of service and for all non-union employees.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have resigned or retired will be paid.

The entire compensated absences liability is reported on the government-wide financial statements.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary funds financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases and loans are recognized as a liability on the governmental fund financial statements when due.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution, as both are equally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by Council. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State statute authorizes the City Auditor to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position

Net Position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for drug law enforcement, police law enforcement, enforcement and education programs and fire prevention.

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

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the proprietary funds. For the City, these revenues are charges for services for water, sewer, incinerator, swimming pool, parking services and the self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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 non-operating 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.

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 Administration and that are either unusual in nature or infrequent in occurrence. During 2012, the City received \$4,428,850 in settlement monies from Buckeye Water which was recorded as a special item. In 2013, the City received an additional \$1,771,150 in settlement monies from Buckeye Water which was also recorded as a special item.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from grants restricted to capital acquisition and construction.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at the object level for all other funds. Budgetary modifications may only be made by ordinance of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Note 3 – Change in Accounting Principles and Restatement of Prior Year Net Position

Change in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53", Statement No. 65, "Items Previously Reported as Assets and Liabilities" and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

Restatement of Prior Year Net Position

During the year, it was determined that governmental depreciable capital assets were understated by \$501,937 and debt obligations were understated by \$116,704. These restatements increased governmental activities net position at January 1, 2012 from \$7,427,680 to \$7,812,913.

During the year, it was determined that business-type net capital assets were understated by \$82,367 and debt obligations were overstated by \$116,704. These restatements increased business-type net position at January 1, 2012 from \$8,510,472 to \$8,709,543.

Note 4 – Fund Deficits

At December 31, 2012, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
<i>Special Revenue Funds:</i>	
Police	(\$84,317)
Police Pension	(6,139)
Fire	(26,007)

The deficits in the special revenue funds are caused by the application of generally accepted accounting principles to these funds. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the police and fire special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The major differences between the budget basis and the GAAP basis are:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned of fund balance (GAAP).
4. Advances-In are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Budgetary revenues and expenditures of the playground fund are reclassified to the general fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and for the major special revenue funds.

	Net Change in Fund Balance			
	General	CHIP	Police	Fire
GAAP Basis	\$1,186,380	(\$82,505)	\$110,283	\$87,362
Adjustment for Revenue Accruals	(1,214,000)	4,370	6,242	(13,143)
Advances In	14,511	0	0	0
Adjustment for Expenditure Accruals	17,016	0	(35,945)	(23,573)
Perspective Difference:				
Playground Fund	(500)	0	0	0
Adjustment for Encumbrances	(32,687)	(148,074)	(39,066)	(3,593)
Budget Basis	(\$29,280)	(\$226,209)	\$41,514	\$47,053

Note 6 - Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and bankers' acceptances if training requirements have been met.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Deposits

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$652,057 of the City's bank balance of \$959,707 was exposed to custodial credit risk because it

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2012, the City had a repurchase agreement in the amount of \$6,470,976 with an investment maturity of less than one year.

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk. The repurchase agreements were backed by Federal Home Loan Mortgage Corporation Bonds, which carry a rating of Aaa by Moody's. The City has no investment policy dealing with investment credit risk beyond the requirement in State statute which limits investment choices.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer. 100 percent of the City's investments were placed in a repurchase agreement as of December 31, 2012.

Note 7 - Receivables

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property taxes, accounts, special assessments, loans, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables except for delinquent property taxes and loans receivable are expected to be collected in one year. Property taxes, although ultimately collectible, include some portions of delinquencies that will not be collected within one year. Payments on loans receivable are scheduled to be repaid over several years due to loan agreements for each of the individual loans.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$12.60 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

	<u>Assessed Value</u>
Real Estate:	
Residential/Agricultural	\$58,626,690
Commercial/Industrial	21,973,110
Public Utility Personal Property	<u>8,008,460</u>
Total	<u><u>\$88,608,260</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Municipal Income Taxes

The City levies a municipal income tax of one and one half percent on all income earned within the City as well as on income of residents earned outside of the City. Employers within the City are required to withhold income tax on employee earnings 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 at least quarterly and file a declaration annually.

Additional increases in the City's income tax rate would require voter approval. The income tax, by ordinance, is allocated, after expenditures for collections, 7.5 percent to the capital projects fund and the remainder to the general fund.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Intergovernmental Receivable

A summary of the governmental activities' principal items of intergovernmental receivables follows:

Governmental Activities	Amount
CHIP Grants	\$581,040
Vehicle Registration	145,473
Gasoline Tax	112,051
Homestead and Rollback	72,284
Permissive Tax	55,817
Local Government	55,132
Cents Per Gallon	54,428
Municipal Court	20,923
US Treasury	5,417
COPS Grant	3,801
Victim Witness Assistance Grant	2,738
Personal Property Tax Reimbursement	2,351
Drug Enforcement Agency	1,391
Columbiana County	95
Total Intergovernmental Receivables	\$1,112,941

Note 8 - 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. During 2012, the City contracted with U.S. Specialty Insurance Company for its property and liability insurance. Cooper Insurance serves as the City's agent.

During 2012, the City purchased the following insurance coverage:

Coverage	Limit
Building and Contents	\$7,558,952
Inland Marine	1,245,016
Automobile Liability	1,000,000
Crime Insurance	30,000
Employee Dishonesty	50,000
Excess Liability	5,000,000
Wrongful Acts Liability	1,000,000
Employee Benefits Liability:	
Per Employee	1,000,000
Aggregate	3,000,000
General Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
Law Enforcement Liability	1,000,000

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Settled claims have not exceeded this coverage in any of the past three years and there has been no significant reduction in commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Employee Insurance Benefits

In mid-2012, the City elected to cover the deductible cost of medical insurance through a self-insured program. The maintenance of these benefits is accounted for in the internal service fund. The deductible amount for medical in 2012 was \$2,500 for single and \$5,000 for family. Incurred but not reported claims of \$33,463 have been accrued as a liability based on a review of January and February 2013 billings provided by the City Auditor's Office.

The claims liability of \$33,463 reported in the internal service fund at December 31, 2012 is based on the requirements of Governmental Accounting Standards Board Statement No. 30 "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Changes in claim activity for the past year are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2012	\$0	\$198,087	\$164,624	\$33,463

Note 9 – Contingencies

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experiences, management believes such refunds, if any, would not be material.

Litigation

Several claims and lawsuits are pending against the City. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 10 – Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2012, was as follows:

	Restated Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,820,262	\$0	\$0	\$1,820,262
Construction in Progress	35,267	788,854	0	824,121
<i>Total Capital Assets, not being depreciated</i>	<u>1,855,529</u>	<u>788,854</u>	<u>0</u>	<u>2,644,383</u>
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	439,315	0	0	439,315
Improvements other than Buildings	326,844	7,050	0	333,894
Machinery and Equipment	5,799,647	187,401	0	5,987,048
Infrastructure	7,702,797	265,512	0	7,968,309
<i>Total Capital Assets, being depreciated</i>	<u>14,268,603</u>	<u>459,963</u>	<u>0</u>	<u>14,728,566</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(260,562)	(6,664)	0	(267,226)
Improvements other than Buildings	(243,047)	(10,688)	0	(253,735)
Machinery and Equipment	(4,968,232)	(76,997)	0	(5,045,229)
Infrastructure	(1,287,299)	(323,062)	0	(1,610,361)
<i>Total Accumulated Depreciation</i>	<u>(6,759,140)</u>	<u>(417,411) *</u>	<u>0</u>	<u>(7,176,551)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>7,509,463</u>	<u>42,552</u>	<u>0</u>	<u>7,552,015</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$9,364,992</u>	<u>\$831,406</u>	<u>\$0</u>	<u>\$10,196,398</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$12,429
Security of Persons and Property	28,122
Transportation	351,885
Public Health	1,210
Leisure Time Activities	20,808
Community and Environment	2,957
Total Depreciation Expense	<u><u>\$417,411</u></u>

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Capital asset activity for business-type activities for the year ended December 31, 2012, was as follows:

	Restated Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$25,771	\$0	\$0	\$25,771
Construction in Progress	0	7,869	0	7,869
<i>Total Capital Assets, not being depreciated</i>	<u>25,771</u>	<u>7,869</u>	<u>0</u>	<u>33,640</u>
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	4,102,003	0	0	4,102,003
Machinery and Equipment	4,278,670	18,485	0	4,297,155
Infrastructure	9,768,857	0	0	9,768,857
Water Lines	1,355,262	0	0	1,355,262
Sewer Lines	2,675,379	0	0	2,675,379
<i>Total Capital Assets, being depreciated</i>	<u>22,180,171</u>	<u>18,485</u>	<u>0</u>	<u>22,198,656</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(2,782,221)	(58,396)	0	(2,840,617)
Machinery and Equipment	(3,186,406)	(203,836)	0	(3,390,242)
Infrastructure	(4,194,429)	(194,367)	0	(4,388,796)
Water Lines	(985,341)	(10,774)	0	(996,115)
Sewer Lines	(2,235,199)	(21,119)	0	(2,256,318)
<i>Total Accumulated Depreciation</i>	<u>(13,383,596)</u>	<u>(488,492)</u>	<u>0</u>	<u>(13,872,088)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>8,796,575</u>	<u>(470,007)</u>	<u>0</u>	<u>8,326,568</u>
<i>Business-Type Activities</i>				
<i>Capital Assets, Net</i>	<u>\$8,822,346</u>	<u>(\$462,138)</u>	<u>\$0</u>	<u>\$8,360,208</u>

Note 11 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. Effective January 1, 2013, the member contribution rates for public safety and law enforcement increased to 12 percent and 12.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011 and 2010 were \$319,900, \$318,442 and \$292,273 respectively. For 2012, 92.50 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$2,907 made by the City and \$2,076 made by plan members.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$123,157 and

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

\$117,570 for the year ended December 31, 2012, \$123,270 and \$116,863 for the year ended December 31, 2011, and \$125,480 and \$114,588 for the year ended December 31, 2010, respectively. For 2012, 76.27 percent for police and 77.47 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2012, the unfunded liability of the City was \$787,658 payable in semi-annual payments through the year of 2035. This is an accounting liability of the City which will not vary.

Note 12 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$127,960, \$127,377 and \$166,623, respectively. For 2012, 92.50 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Firemen Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available of OP&F's website at www.op-f.org.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$65,201 and \$46,006 for the year ended December 31, 2012, \$65,261 and \$45,729 for the year ended December 31, 2011, and \$66,430 and \$44,839 for the year ended December 31, 2010. For 2012, 76.27 percent has been contributed for police and 77.47 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Note 13 – Other Employee Benefits

Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates depending upon length of service and type of employment. Vacation leave benefits are lost at year end if employees do not use these balances during the year unless prior approval has been obtained from the department head. Upon retirement or death, employees are paid to a maximum of 480 hours for accumulated unused sick leave.

Insurance

The City provides life insurance and accidental death and dismemberment insurance to all union employees as well as all non-union employees, excluding elected officials. The amount of the life insurance policy for the union employees is \$2,000 plus an amount paid by the employees' union to equal the employees' annual salary. Non-union employees' life insurance is based on their annual salary. The police and fire employees receive a \$25,000 policy.

The City contracts with United Healthcare for medical, prescription, dental, and vision insurances for all employees and elected officials. The City pays monthly premiums up to a maximum amount, per union agreements. The additional premium costs are paid by the employee. City premiums are paid from the same funds that pay the employees' salaries.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 14 - Long-Term Obligations

The changes in long-term obligations during the year were as follows:

	Restated Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Amounts Due In One Year
Governmental Activities					
Installment Loans:					
2007 Aerial Fire Truck - 5.95%	\$47,800	\$0	(\$6,926)	\$40,874	\$7,364
2009 Snow Removal - 4.80%	31,147	0	(10,190)	20,957	10,694
2009 Cruisers - 4.80%	17,446	0	(5,708)	11,738	5,990
2009 Air Compressor - 4.80%	26,204	0	(8,573)	17,631	8,996
<i>Total Installment Loans</i>	<u>122,597</u>	<u>0</u>	<u>(31,397)</u>	<u>91,200</u>	<u>33,044</u>
Ohio Public Works Commission Loans:					
2003 State Route 39 Improvement Loan - 0.00%	273,679	0	(23,798)	249,881	23,798
2012 St. Clair Avenue Improvement Loan - 0.00%	0	78,020	0	78,020	0
<i>Total Ohio Public Works Commission Loans</i>	<u>273,679</u>	<u>78,020</u>	<u>(23,798)</u>	<u>327,901</u>	<u>23,798</u>
Ohio Department of Transportation Loan:					
1990 Highway 30 Loan - 3.00%	76,763	0	(60,000)	16,763	16,763
State Infrastructure Bank Loans:					
2004 St. Clair Paving Loan - 3.00%	447,463	0	(144,736)	302,727	149,110
2011 Road Improvements Loan - 3.00%	302,582	85,233	0	387,815	0
<i>Total State Infrastructure Bank Loans</i>	<u>750,045</u>	<u>85,233</u>	<u>(144,736)</u>	<u>690,542</u>	<u>149,110</u>
Land Property Loans:					
2009 Land Property Loan - 1.50%	1,227,058	0	(1,227,058)	0	0
2012 Property Loan Payable to CIC - 6.25%	0	455,000	0	455,000	455,000
2012 Property Loan Payable to CIC - 0.25%	0	95,000	0	95,000	95,000
<i>Total Land Property Loans</i>	<u>1,227,058</u>	<u>550,000</u>	<u>(1,227,058)</u>	<u>550,000</u>	<u>550,000</u>
Capital Leases:					
2007 Backhoe and Wheel Loader - 5.00%	21,557	0	(21,557)	0	0
2009 Copier - 6.28%	2,712	0	(998)	1,714	1,062
2009 Copier - 6.28%	1,716	0	(1,716)	0	0
2010 Copier - 6.27%	7,899	0	(1,794)	6,105	1,909
2011 Copier - 6.10%	13,536	0	(2,388)	11,148	2,538
2012 Copier - 7.62%	0	12,480	(1,224)	11,256	2,228
2012 Police Interceptor - 5.65%	0	65,235	(10,379)	54,856	21,020
2012 Street Truck - 6.20%	0	59,412	(13,353)	46,059	10,498
2012 Fire Truck - 6.65%	0	48,307	(17,149)	31,158	15,078
<i>Total Capital Leases</i>	<u>47,420</u>	<u>185,434</u>	<u>(70,558)</u>	<u>162,296</u>	<u>54,333</u>
Compensated Absences	335,951	95,318	(166,348)	264,921	0
Police and Fire Pension	808,305	0	(20,647)	787,658	21,534
Total Governmental Activities	<u><u>\$3,641,818</u></u>	<u><u>\$994,005</u></u>	<u><u>(\$1,744,542)</u></u>	<u><u>\$2,891,281</u></u>	<u><u>\$848,582</u></u>

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Restated Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Amounts Due In One Year
Business-Type Activities					
Installment Loans:					
2007 Anderson Boulevard Water Loan - 6.25%	\$61,895	\$0	(\$9,883)	\$52,012	\$10,539
2007 Anderson Boulevard Sewer Loan - 6.25%	43,326	0	(6,918)	36,408	7,377
2009 Bradshaw Water Loan - 5.81%	221,822	0	(7,559)	214,263	8,054
2009 Parking Lot Improvement Loan - 4.80%	6,996	0	(6,996)	0	0
<i>Total Installment Loans</i>	<u>334,039</u>	<u>0</u>	<u>(31,356)</u>	<u>302,683</u>	<u>25,970</u>
Ohio Public Works Commission Loans:					
1993 Pope Street/Thompson Avenue Water Tank Water Loan - 0.00%	32,500	0	(13,000)	19,500	13,000
2001 Henry Avenue Waterline Water Loan - 0.00%	38,370	0	(4,264)	34,106	4,263
<i>Total Ohio Public Works Commission Loans</i>	<u>70,870</u>	<u>0</u>	<u>(17,264)</u>	<u>53,606</u>	<u>17,263</u>
Ohio Water Development Authority Loans:					
1994 Project #3099 Water Loan - 5.94%	251,586	0	(96,717)	154,869	102,297
1996 Project #3100 Water Loan - 5.94%	9,725	0	(3,734)	5,991	3,956
2004 Project #4181 Water Loan - 3.35%	2,900,211	0	(165,436)	2,734,775	171,024
1996 Project #1548 Sewer Loan - 5.96%	232,178	0	(111,498)	120,680	120,680
2012 Project #6275 Water Loan - 3.74%	0	5,047	0	5,047	0
2012 Project #6276 Sewer Loan - 3.74%	0	2,837	0	2,837	0
<i>Total Ohio Water Development Authority Loans</i>	<u>3,393,700</u>	<u>7,884</u>	<u>(377,385)</u>	<u>3,024,199</u>	<u>397,957</u>
Capital Leases:					
2008 Garbage Trucks Incinerator Lease - 4.07%	146,481	0	(102,519)	43,962	43,962
2010 Trash Compactor Incinerator Lease - 6.19%	40,456	0	(10,142)	30,314	10,787
<i>Total Capital Leases</i>	<u>186,937</u>	<u>0</u>	<u>(112,661)</u>	<u>74,276</u>	<u>54,749</u>
Compensated Absences	87,919	31,124	(50,001)	69,042	11,506
Total Business-Type Activities	<u><u>\$4,073,465</u></u>	<u><u>\$39,008</u></u>	<u><u>(\$588,667)</u></u>	<u><u>\$3,523,806</u></u>	<u><u>\$507,445</u></u>

Within governmental activities, the City has installment loans, OPWC loans, an ODOT loan, SIB loans and Land Property loans. These loans are to finance various projects and equipment purchases. The installment loans are being paid from the street capital improvement and the capital improvements capital project funds. The OPWC loans are being paid from the debt service fund and the SAMM roadway improvement capital projects fund. The ODOT loan is being paid from the debt service fund. The SIB loans are being paid from the debt service fund and the permissive tax special revenue fund. The Land Property loans are being paid from the capital improvements capital projects fund.

A line of credit has been established with the Ohio Public Works Commission in the amount of \$256,832 for improvements to St. Clair Avenue. As of December 31, 2012, only \$78,020 of governmental proceeds has been received and a loan payment schedule has not been finalized; therefore, the repayment schedule is not included in the schedule of debt service requirements.

A line of credit has been established with the Ohio State Infrastructure Bank (SIB) for a total amount of \$445,136 for various road improvements within the City. As of December 31, 2012, only \$387,815 of governmental proceeds has been received and a loan payment schedule has not been finalized; therefore, the repayment schedule is not included in the schedule of debt service requirements.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Within business-type activities, the City has installment loans, OPWC loans and OWDA loans. These loans are to finance various projects and equipment purchases. The installment loans are being paid from the City's water, sewer, and off street parking funds. The OPWC loans are being paid from the water fund. The OWDA loans are being paid from the water and sewer funds.

A line of credit has been established with the Ohio Water Development Authority in the amount of \$55,389 for the St. George waterline replacement design project. As of December 31, 2012, only \$5,047 of business-type proceeds has been received and a loan payment schedule has not been finalized; therefore, the repayment schedule is not included in the schedule of debt service requirements.

A line of credit has been established with the Ohio Water Development Authority in the amount of \$28,316 for the St. George waterline replacement design project. As of December 31, 2012, only \$2,837 of business-type proceeds has been received and a loan payment schedule has not been finalized; therefore, the repayment schedule is not included in the schedule of debt service requirements.

The City has pledged future revenues, net of operating expenses, to repay OPWC and OWDA loans in the City of East Liverpool water fund. The debt is payable solely from net revenues and are payable through 2025. Annual principal and interest payments on the debt issues are expected to require less than 100 percent of net revenues in future years; however, in 2012, principal and interest payments on the loans exceeded net revenues. The total principal and interest remaining to be paid on the debt is \$3,622,770. Principal and interest paid for the current year and total net revenues were \$394,028 and \$207,614, respectively.

The City has pledged future revenues, net of operating expenses, to repay an OWDA loan in the City of East Liverpool sewer fund. The debt is payable solely from net revenues and are payable through 2013. Annual principal and interest payments on the debt issues are expected to require less than 41 percent of net revenues. The total principal and interest remaining to be paid on the debt is \$130,606. Principal and interest paid for the current year and total net revenues were \$127,751 and \$314,989, respectively.

The City also has nine capital leases. The street truck capital lease will be paid from the street capital improvement fund. The copier capital leases will be paid from the general fund and the police special revenue fund. The police interceptor and the fire truck capital leases will be paid from the capital improvements capital projects fund. The garbage trucks and the trash compactor business-type activities' capital leases will be paid from the incinerator fund.

The compensated absences liability will be paid from the general, police, fire, street, water, sewer and incinerator funds.

As of December 31, 2012, the City's overall legal debt margin was \$7,688,795 and the unvoted legal debt margin was \$3,258,382. Principal and interest requirements to retire the outstanding debt at December 31, 2012, are as follows:

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Governmental Activities							
	Installment Loans		OPWC Loans	ODOT Loan	SIB Loan		Land Property Loan	
	Principal	Interest	Principal	Principal	Principal	Interest	Principal	Interest
2013	\$33,044	\$4,119	\$23,798	\$16,763	\$149,110	\$7,972	\$550,000	\$54,838
2014	32,467	2,402	23,798	0	153,617	3,465	0	0
2015	8,306	1,322	23,798	0	0	0	0	0
2016	8,818	810	23,799	0	0	0	0	0
2017	8,565	260	23,798	0	0	0	0	0
2018-2022	0	0	118,991	0	0	0	0	0
2023	0	0	11,899	0	0	0	0	0
Totals	\$91,200	\$8,913	\$249,881	\$16,763	\$302,727	\$11,437	\$550,000	\$54,838

	Business-Type Funds				
	Installment Loans		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2013	\$25,970	\$17,493	\$17,263	\$397,957	\$109,413
2014	27,627	15,837	10,763	231,409	87,583
2015	29,388	14,075	4,264	182,774	78,445
2016	31,225	12,237	4,263	188,948	72,270
2017	19,623	10,421	4,263	195,331	65,888
2018-2022	60,929	41,366	12,790	1,080,204	225,890
2023-2027	81,748	20,546	0	739,692	43,966
2028-2029	26,173	1,106	0	0	0
Totals	\$302,683	\$133,081	\$53,606	\$3,016,315	\$683,455

Note 15 - Conduit Debt Obligations

From time to time, the City has issued Hospital Facilities Revenue Bonds to provide funding for the construction of the East Liverpool hospital facilities and the acquisition and installation of medical equipment deemed to be in the public interest. The bonds are secured by trust indentures and an irrevocable letter of credit between the hospital and the bank. Upon repayment of the bonds, ownership of the acquired facilities transfers to the hospital served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2012, there were two series of Hospital Facilities Revenue Bonds with an aggregate outstanding principal amount payable of \$25,615,000 and an original issue amount of \$33,990,000.

Note 16 – Capital Leases

In prior years, the City entered into capital leases for three copiers in the governmental activities and garbage trucks and a trash compactor in the business-type activities. In 2012, the City entered into capital leases for an additional copier, police interceptor vehicles, a street truck and a fire truck in the governmental activities. These lease obligations meet the criteria of a capital lease and have been recorded as capital assets on the government-wide statements. Capital lease payments are reflected as debt service expenditures in the various funds on the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Governmental Activities	Business-Type Activities
Asset:		
Machinery and Equipment	\$210,489	\$534,492
Less: Accumulated Depreciation	(24,825)	(256,638)
Current Book Value	\$185,664	\$277,854

Such agreements provide for minimum, annual lease payments as follows:

	Governmental Activities	Business-Type Activities
2013	\$63,616	\$56,771
2014	63,141	12,361
2015	33,537	8,241
2016	19,510	0
2017	1,254	0
Total Minimum Lease Payments	181,058	77,373
Less: Amount Representing Interest	(18,762)	(3,097)
Totals	\$162,296	\$74,276

Note 17 – Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Capital Improvements	Sewer Fund	Incinerator Fund	
Police Fund	\$1,838,062	\$0	\$0	\$0	\$1,838,062
Fire Fund	517,768	0	0	0	517,768
Nonmajor Funds	92,518	135,000	0	0	227,518
Water Fund	0	0	171,617	10,300	181,917
Grand Total	\$2,448,348	\$135,000	\$171,617	\$10,300	\$2,765,265

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service; to segregate money for anticipated capital projects; and to return money to the fund from which it was originally provided once a project is completed. The transfers from the general fund were to subsidize police, fire, and street operations of the City, as well as the victim witness assistance program and Broadway Wharf. The transfer to the debt service fund from the capital improvements fund was to account for that fund's portion of debt obligations. The transfers from the sewer and incinerator enterprise funds to the water fund were for billing reimbursements.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 18 - Jointly Governed Organizations

Columbiana Metropolitan Housing Authority (the Authority)

The Authority is a non-profit organization established to provide adequate public housing for low income individuals and is statutorily created as a separate and distinct political subdivision of the State. The Authority is operated by a five member board of commissioners. Two members are appointed by the Mayor of East Liverpool, one member is appointed by the Columbiana County Commissioners, one member is appointed by the judge of the probate court, and one member is appointed by the judge of the court of common pleas. The City did not contribute any amounts to the Authority during 2012. The continued existence of the Authority is not dependent on the City's continued participation and no equity interest exists. The Authority has no outstanding debt for which City of East Liverpool is responsible.

Ohio Mid-Eastern Governments Association (OMEGA)

OMEGA is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a seventeen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. A county commissioner serves as the County's representative on the board. The board has total control over budgeting, personnel and financial matters. Each member currently pays a per capita membership fee based on the most recent United States census. During 2012, OMEGA received \$1,679 from the City of East Liverpool for an annual fee. The continued existence of OMEGA is not dependent on the City's continued participation and no equity interest exists. OMEGA has no outstanding debt. Information can be obtained from 326 Highland Avenue, PO Box 130, Cambridge, Ohio 43725.

Note 19 – Closure and Post-closure Care Cost

In 1993, the City agreed to sell the East Liverpool City Landfill to the East Liverpool Landfill, Inc. The landfill and all contractual obligations were subsequently acquired by USA Waste Service, Inc. (USA). USA is in the process of closing the landfill. Under the original sales agreement, the City indemnified the purchaser for all cost incurred with regard to the activities or operations of the landfill prior to 1990.

USA has assured the City that they are closing the landfill at their sole cost and expense. USA has posted all required closure and post-closure bonds with the Environmental Protection Agency (EPA). The City's post-closure liability relating to the pre-1990 operations, if any, cannot be determined.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 20 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>CHIP</u>	<u>Police</u>	<u>Fire</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Nonspendable:</u>							
Inventory	\$0	\$0	\$0	\$0	\$0	\$21,893	\$21,893
Prepays	29,082	0	15,410	15,403	0	14,245	74,140
Unclaimed Monies	1,581	0	0	0	0	0	1,581
<i>Total Nonspendable</i>	<u>30,663</u>	<u>0</u>	<u>15,410</u>	<u>15,403</u>	<u>0</u>	<u>36,138</u>	<u>97,614</u>
<u>Restricted:</u>							
Transportation	0	0	0	0	0	134,695	134,695
Public Safety	0	0	0	0	0	84,243	84,243
Fire Pension	0	0	0	0	0	5,025	5,025
Public Health	0	0	0	0	0	1,735	1,735
Economic Development	0	172,846	0	0	0	57,637	230,483
Court Computerization	0	0	0	0	0	9,500	9,500
Probation Services	0	0	0	0	0	58,957	58,957
Debt Service	0	0	0	0	0	61,334	61,334
Capital Improvements	0	0	0	0	105,576	192,896	298,472
<i>Total Restricted</i>	<u>0</u>	<u>172,846</u>	<u>0</u>	<u>0</u>	<u>105,576</u>	<u>606,022</u>	<u>884,444</u>
<u>Committed:</u>							
Economic Development	0	0	0	0	0	28,546	28,546
<u>Assigned:</u>							
Recreation	1,435	0	0	0	0	0	1,435
Purchases on Order	26,728	0	0	0	0	0	26,728
<i>Total Assigned</i>	<u>28,163</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,163</u>
Unassigned (Deficit)	<u>1,555,234</u>	<u>0</u>	<u>(99,727)</u>	<u>(41,410)</u>	<u>0</u>	<u>(6,139)</u>	<u>1,407,958</u>
Total Fund Balance (Deficit)	<u>\$1,614,060</u>	<u>\$172,846</u>	<u>(\$84,317)</u>	<u>(\$26,007)</u>	<u>\$105,576</u>	<u>\$664,567</u>	<u>\$2,446,725</u>

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 21 – Significant Commitments

Contractual Commitments

As of December 31, 2012, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid to Date	Remaining Contract
Michael Baker Jr., Inc.	\$71,014	\$6,067	\$64,947
The Shelly Company	1,060,568	715,279	345,289
Dallis Dawson & Associates	53,380	5,038	48,342
	<u>\$1,184,962</u>	<u>\$726,384</u>	<u>\$458,578</u>

A portion of contractual commitments are being funded by the Ohio Department of Transportation and the Ohio Public Works Commission.

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Major Funds:</i>	
General Fund	\$32,687
CHIP Fund	148,074
Police Fund	39,066
Fire Fund	3,593
Capital Improvements Fund	20,970
Water Fund	105,984
Sewer Fund	38,936
Incinerator Fund	19,429
Other Governmental Funds	422,636
Total	<u>\$831,375</u>

Note 22 – Subsequent Event

In June 2013, the City chose to early retire \$550,000 in property loans payable to the Community Improvement Corporation (CIC). The maturity date of these loans was July 2014. The loans were paid out of the capital improvements fund with monies transferred from the general fund that had been received from the Buckeye Water settlement.

City of East Liverpool, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

(This Page Intentionally Left Blank.)

August 15, 2013

To Members of Council and Management
City of East Liverpool
Columbiana County, Ohio
126 W 6th St.
East Liverpool, Ohio 43920

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Liverpool, Columbiana County, Ohio (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 15, 2013, in which we noted the City restated net position to correct prior period errors related to capital assets and debt.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-001 and 2012-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-003, 2012-004, and 2012-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 are required to be reported under Government Auditing Standards.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio

August 15, 2013

To Members of Council and Management
City of East Liverpool
Columbiana County, Ohio
126 W 6th St.
East Liverpool, Ohio 43920

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited the City of East Liverpool's, Columbiana County, Ohio (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinions on Community Development Block Grant and Home Investment Partnerships Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 14.228 Community Development Block Grant and CFDA 14.239 Home Investment Partnerships Program as described in finding number 2012-006 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinions on Community Development Block Grant and Home Investment Partnerships Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grant and Home Investment Partnerships Program for the year ended December 31, 2012.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Other Matters

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City of East Liverpool
Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the
Schedule of Expenditures of Federal Awards Required by OMB Circular A-133
Page 3 of 3

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-006 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-007 to be a significant deficiency.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio

City of East Liverpool
Columbiana County, Ohio
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass Through Grantor Program Title	Agency or Pass Through Entity Number	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through Ohio Department of Development:</i>			
Community Development Block Grants	A-F-11-2BH-1	14.228	\$ 77,650
Community Development Block Grants	A-F-10-2BH-1	14.228	9,108
Community Development Block Grants	A-F-09-2BH-1	14.228	1,377
Community Development Block Grants	A-C-10-2BH-1	14.228	14,990
Community Development Block Grants	A-C-12-2BH-1	14.228	4,762
Community Development Block Grants	2BH	14.228	198
Total Community Development Block Grants			108,085
HOME Investment Partnerships Program	A-C-10-2BH-2	14.239	299,877
HOME Investment Partnerships Program	A-C-12-2DL-2	14.239	5,987
HOME Investment Partnerships Program	2BH	14.239	353
Total HOME Investment Partnerships Program			306,217
<i>Total Passed through Ohio Department of Development</i>			414,302
Total U.S. Department of Housing and Urban Development			414,302
U.S. DEPARTMENT OF JUSTICE			
<i>Direct Program:</i>			
ARRA - Public Safety Partnership and Community Policing Grants	COPS-CHRP-2009-1	16.710	28,766
<i>Passed through Ohio Attorney General's Office:</i>			
Crime Victim Assistance	2012SAGENE468	16.575	1,185
Crime Victim Assistance	2013SAGENE468	16.575	395
Crime Victim Assistance	2012VAGENE468	16.575	11,573
Crime Victim Assistance	2013VAGENE468	16.575	4,032
Total Crime Victim Assistance			17,185
<i>Total Passed through Ohio Attorney General's Office</i>			17,185
Total U.S. Department of Justice			45,951
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed through Ohio Department of Transportation:</i>			
Highway Planning and Construction:			
COL - Bradshaw Avenue	81826	20.205	11,040
COL - St. Clair/McKinnon/Maine/Ambr	89333	20.205	646,101
Total Highway Planning and Construction			657,141
<i>Total Passed through Ohio Department of Transportation</i>			657,141
Total U.S. Department of Transportation			657,141
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,117,394

City of East Liverpool
Columbiana County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2012

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) reports the federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

Note B - Matching Requirements

Certain Federal programs require the Government to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Government has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

Note C - Community Development Block Grant (CDBG) Revolving Loan Programs

The Government has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the Government, passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Expenditures of Federal Awards (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. These loans are collateralized by mortgages on the property.

Activity in the CDBG revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012	\$ 71,752
Loans made	459
Loan principal repaid	<u>(7,323)</u>
Ending loans receivable balance as of December 31, 2012	\$ 79,534
Cash balance on hand in revolving loan fund as of December 31, 2012	\$ 33,826

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
December 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS
--

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	Yes
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	Yes
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Qualified – Community Development Block Grant and Home Investment Partnerships Unmodified – Highway Planning and Construction
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list): Community Development Block Grant Home Investment Partnerships Highway Planning and Construction	CFDA #14.228 #14.239 #20.205
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2012

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

Finding Number: 2012-001

Material Weakness – Capital Assets

Criteria: The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 122 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 122 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. An indication of a material weakness in internal control includes restating previously issued financial statements to reflect the correction of a material misstatement due to fraud or error.

Condition: In the previous period, the City was unable to provide a comprehensive detailed listing of individual capital assets and related depreciation by asset tag acquired prior to 2007. The City subsequently recovered this listing and the preceding financial statements were restated to account for the resulting material misstatement.

Cause: The City does not have a formal capital asset policy approved by Council nor has the City performed a periodic internal inspection of their assets, which are particularly important to ensure the capital asset listing is complete and accurate for financial reporting.

Effect: The financial statements were materially misstated due to the lack of accounting for assets acquired prior to 2007 not captured in the City's previously-issued financial statements. Without proper policies and procedures, the reliability of the financial statements is minimized and increases the risk for material misstatement.

Recommendation: We recommend the City develop and formally approve a capital asset policy that addresses key criteria such as the capitalization threshold, method of depreciation, useful life by class, the types of purchases that constitute a capital asset versus a repair or maintenance expense, language addressing GASB 42 (Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries) and GASB 51 (Accounting and Financial Reporting for Intangible Assets), as well as the roles and responsibilities of the City personnel involved in this process. A formal policy should also incorporate the frequency of physical inspections of capital assets and the parties who are responsible for performing them.

Management's Response: The City will work to develop a capital asset policy that will properly addresses the recommendation above to ensure that the capital asset listing is complete and accurate beginning with the subsequent audit period.

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2012

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

Finding Number: 2012-002

Material Weakness – Cash Reconciliations

Criteria: The City’s management has a responsibility to design and maintain internal controls over financial reporting. Internal controls must exist over the cash reconciliation process. Timely reconciliation and review should be completed by the appropriate personnel.

Condition: While obtaining an understanding of internal controls over the cash reconciliation process, we identified a deficiency in the City’s controls such that there was a reasonable possibility that a material misstatement of the entity’s financial statements would not be prevented, or detected and corrected in a timely manner. A crucial step in the internal control over financial reporting is to reconcile monthly the cash bank balance and investments to the balance in the accounting records and provide support for reconciling items. The reconciliation process will help ensure complete, accurate and timely posting of receipts and will promote the detection of errors or irregularities by the City’s management in a timely manner.

Cause: The factors that resulted in the control weakness are a lack of ability to reconcile book transactions to bank activity in a timely manner and the absence of supervisory review over the bank reconciliation in the City Treasurer’s Office.

Effect: Without monthly comprehensive cash reconciliations, the City risks the potential of having transactions posted improperly and/or misrepresenting actual cash balances to City Council for use with budgeting decisions.

Recommendation: We recommend the City Treasurer obtain a complete understanding of the City’s accounting processes in order to diagnose the source of the unreconciled differences and implement controls to maintain a seamless reconciliation process on a timely basis. The completed reconciliation should show evidence of management review and approval and should also be presented to Council in the subsequent month for approval.

Management’s Response: The City will develop procedures that will allow for complete and timely cash reconciliation. The updated procedures will be fully implemented in time for our next audit.

Finding Number: 2012-003

Significant Deficiency – Segregation of Duties

Criteria: Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities.

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2012

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

Finding Number: 2012-003 (continued)

Condition: While obtaining an understanding of internal controls within the Auditor’s Office, we noted that the Deputy Auditor prepares and posts journal entries to the accounting system with no evidence of oversight from the City Auditor. In addition, we noted the Deputy Auditor tried to help complete the 2012 bank reconciliation in 2013, with no evidence of oversight from the City Treasurer.

Cause: The factors that resulted in the control weakness are a lack of segregation of duties and sufficient oversight of the activities performed within the City Auditor’s office.

Effect: Errors occurred and went undetected by management. A lack of segregation of duties and oversight exposes the City to increased risk of error or fraud.

Recommendation: To improve segregation of duties, the City Auditor should provide appropriate oversight of all memo, journal and correcting entries posted to the general ledgers for proper purpose, account distribution, and amount. The bank reconciliation should be reviewed and approved by the City Treasurer evidenced by signature and date each month. The City Treasurer should pay particular attention to the source of the reconciling items. This process is important since the person reconciling the bank statement is also the person making the adjusting journal entries.

Management’s Response: The City is adopting updated procedures that will properly segregate duties and ensure timely and adequate supervision over reconciling and posting adjustments. The updated procedures will be fully implemented in time for our next audit.

Finding Number: 2012-004

Significant Deficiency – Vendor Verification

Criteria: The electronic vendor master file is a centralized store of data pertaining to the City’s vendors. The vendor master file is of particular importance supporting the transactional accounts payable process, as it is utilized to access vendor information in order to generate check payments. The City has the responsibility to develop internal control procedures to protect the integrity of the vendor master file.

Condition: As part of our review of the City’s vendor activity, we extracted the vendor master file from the City’s accounting system and analyzed it utilizing ACL (data mining software). Through this analysis, we noted the vendor master contained many duplicate vendors as well as vendors with missing address details. In addition, new vendors initiated outside of the Auditor’s Office are set up in the vendor master file without verification of legitimacy.

Cause: The Auditor’s Office has not developed internal control procedures to maintain the integrity of the electronic vendor master file.

Effect: Lack of internal controls regarding the electronic vendor master expose the City to an increased risk of fraud or error in the accounts payable process.

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2012

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

Finding Number: 2012-004 (continued)

Recommendation: We recommend the Auditor’s Office perform a periodic review of the vendor master file for potential purging of duplicate vendors, procedures to ensure that all vendor details are entered into the electronic vendor master file. We also recommend verification of vendors to ensure that all new vendors are legitimate and for a proper business purpose.

Management’s Response: The Auditor’s Office recognizes the importance of controls over the vendor master file and will work to develop and incorporate internal controls to properly address this recommendation.

Finding Number: 2012-005

Significant Deficiency – Internal Control - Payroll

Criteria: Payroll is the largest expense incurred by the City. The City’s management is responsible for designing, implementing and maintaining sound internal controls over the payroll process to ensure that payroll is for actual time worked and to ensure that payroll is paid from the fund for which the work was performed.

Condition: Reperformance of the City’s internal controls over payroll included recalculation of the allocation between funds of all employees included in the respective payrolls tested. During our reperformance, we noted 2 of 5 instances tested where the City’s accounting system showed payroll expenses made from the Incinerator fund to a certain employee, whereas, the employee’s department-approved timesheet showed work performed was for the Sewer fund. In addition, we noted in 5 of 5 instances tested where the payroll of a certain Safety Service employee was posted to the Street fund, whereas, it should have been posted to the General fund based on the department-approved timesheet. As of the report date, this error has been corrected on the financial statements and the City has corrected this error in their accounting system.

Cause: The factors that resulted in the control failures were a lack of oversight and authorization over the payroll process.

Effect: This could cause inaccurate reporting of time to go undetected which could lead to an error in the allocation of payroll expenses.

Recommendation: We recommend the City re-evaluate the design, implementation and maintenance of internal controls over the payroll process. Internal controls should be sufficient to ensure that payroll expenses are for actual time work and to ensure that payroll is paid from the proper fund.

Management’s Response: It was the intent of City Council to authorize the payment of the Safety Service employee identified above to be paid from the Street fund through the passing of a formal ordinance. However, this ordinance was inadvertently not presented to Council for formal approval. The City Auditor’s office will take the necessary steps to ensure that this recommendation is addressed.

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2012

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	2012-006
Federal Programs and CFDA Numbers	Community Development Block Grant – CFDA #14.228 HOME Investment Partnerships Program – CFDA #14.239
Federal Award Number / Year	CDBG: 2009, 2010, 2011, 2012 HOME: 2010, 2012
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Material Internal Control Weakness/Non-Compliance – Cash Management

Criteria: 24 CFR 85.21 requires that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.

The Ohio Department of Development Office of Housing and Community Partnerships’ Financial Management Rules and Regulations section (A)(3)(f) further more provides that the grantee must develop a cash management system to ensure compliance with the 15-day rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of the receipt of any funds. Lump sum drawdowns are not permitted.

Condition: During the year, the City held funds in varying amounts above \$5,000 in excess of 15 days after the drawdown of funds. The City maintains these funds in a segregated non-interest bearing cash account.

Cause: The City is not using effective cash management practices, which would limit the time between expenditures and drawdowns.

Effect: The City could potentially see a reduction of grant funding and/or return of grant funding to the U.S. Department of Housing and Urban Development.

Recommendation: We recommend federal grant cash funds are monitored on a regular basis to ensure that time is limited between expenditures and drawdowns. The City should also review the Office of Management and Budget Circular A-133 regarding cash management requirements. We also recommend the City consult with the Ohio Department of Development Office of Housing and Community Partnerships regarding financial management rules and regulations. This will help ensure compliance with cash management of Federal award programs and that proper action is taken.

Management’s Response: Compliance with all regulations and grant agreements is highly important to the City. The City will work diligently to ensure federal funds are timely spent in the future.

City of East Liverpool
Columbiana County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2012

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)
--

Finding Number	2012-007
Federal Programs and CFDA Numbers	HOME Investment Partnerships Program – CFDA #14.239
Federal Award Number / Year	HOME: 2010, 2012
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Significant Deficiency – Internal Control Weakness – Allowability

Criteria: Federal Regulations (Appendix A to 2 CFR 225 (C)(1)(c)) include the following requirements: "to be allowable under Federal awards, costs must meet a) be necessary and reasonable for proper and efficient performance and administration of Federal Awards, b) be allocable to Federal awards under the provisions of 2 CFR part 225, and c) be authorized and not prohibited under State or local laws or regulations." Furthermore the Ohio Department of Development Office of Housing and Community Partnerships' Financial Management Rules and Regulations requires the grantee to establish, use and keep on file a procedure for determining the reasonableness of allowability and allocability of costs.

Condition: The City's procedures for monitoring allowability include the sign-off of purchase orders of \$500 or greater by the Mayor and Safety Service Director. During our testing of allowability over the HOME grant, we noted that one purchase order was not signed by the Mayor and the Safety Service Director. The City has compensating controls over allowability and no questioned costs or non-compliance were noted.

Cause: The Mayor and Safety Service Director did not sign off on a purchase order for HOME expenditures as an indication of their approval and allowability.

Effect: There is an increased risk of expenditures not being allowable if the control process is not properly followed.

Recommendation: The City should adopt internal review procedures to ensure all HOME grant purchases are properly approved prior to payment.

Management Response: Compliance with all regulations and grant agreements is highly important to the City. The City will work diligently to ensure federal expenses are reviewed and authorized prior to being paid.

City of East Liverpool
Columbiana County, Ohio
Schedule of Prior Audit Findings
OMB Circular A-133, Section .315(b)
December 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2011-001	Internal controls over capital assets	No	Repeated as Finding 2012-001
2011-002	Bank reconciliations not performed properly	No	Repeated as Finding 2012-002
2011-003	Prevailing wages not included in contract	Yes	
2011-004	Amended certificates not requested timely	Yes	
2011-005	Appropriations exceeded estimated resources	Yes	
2011-006	Appropriations not amended timely	Yes	
2011-007	Expenditures exceeded appropriations	Yes	
2011-008	Negative cash fund balances existed	No	Partially corrected, reduced to management letter
2011-009	Internal controls over financial reporting	No	Included with Finding 2012-001
2011-010	Certified cash balance to County Auditor instead of unencumbered balance	Yes	
2011-011	Ineffective cash management practices related to CDBG grant	No	Repeated as Finding 2012-006
2011-012	Filed late with the Federal Audit Clearinghouse	Yes	

This page intentionally left blank.



Dave Yost • Auditor of State

CITY OF EAST LIVERPOOL

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 7, 2013**