



Dave Yost • Auditor of State

**VILLAGE OF EAST PALESTINE
COLUMBIANA COUNTY**

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VILLAGE OF EAST PALESTINE
COLUMBIANA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of East Palestine
Columbiana County
85 North Market Street
East Palestine, Ohio 44413

To the Village Council:

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 Village of East Palestine, Columbiana County, Ohio (the "Village"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 Village of East Palestine, Columbiana County, Ohio, as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January, 20, 2015, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

January, 20, 2015

VILLAGE OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2013

Unaudited

The discussion and analysis of the Village of East Palestine's financial performance provides an overall review of the Village's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 are as follows:

- ❑ In total, net position increased \$757,673. Net position of governmental activities increased \$393,231, which represents a 6% change from 2012. Net position of business-type activities increased \$364,442 or 10% from 2012.
- ❑ General revenues accounted for \$1,933,022 in revenue or 39% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,050,592, 61% of total revenues of \$4,983,614.
- ❑ The Village had \$2,741,204 in expenses related to governmental activities; only \$1,201,413 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,933,022 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,587,781 in revenues and \$1,442,545 in expenditures. The general fund's fund balance increased \$87,963 to a balance of \$2,718,168.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

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

VILLAGE OF EAST PALESTINE, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2013*

Unaudited

Government-wide Statements

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

The two government-wide statements report the Village's net position and how it has changed. Net position is one way to measure the Village's financial health.

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

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

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

Fund Financial Statements

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

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

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

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

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The following table provides a summary of the Village's net position for 2013 compared to 2012.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$2,078,319	\$2,021,392	\$979,425	\$839,023	\$3,057,744	\$2,860,415
Capital Assets, Net	6,226,281	6,029,184	9,630,318	9,662,360	15,856,599	15,691,544
Total Assets	<u>8,304,600</u>	<u>8,050,576</u>	<u>10,609,743</u>	<u>10,501,383</u>	<u>18,914,343</u>	<u>18,551,959</u>
Long-term Obligations	1,100,980	1,250,898	6,459,804	6,727,115	7,560,784	7,978,013
Other Liabilities	112,946	113,435	69,931	58,702	182,877	172,137
Total Liabilities	<u>1,213,926</u>	<u>1,364,333</u>	<u>6,529,735</u>	<u>6,785,817</u>	<u>7,743,661</u>	<u>8,150,150</u>
Deferred Inflows of Resources	646,746	635,546	0	0	646,746	635,546
Net Position						
Net Investment in Capital Assets	5,291,919	4,931,595	3,259,950	3,017,959	8,551,869	7,949,554
Restricted	512,010	626,265	0	0	512,010	626,265
Unrestricted	639,999	492,837	820,058	697,607	1,460,057	1,190,444
Total Net Position	<u>\$6,443,928</u>	<u>\$6,050,697</u>	<u>\$4,080,008</u>	<u>\$3,715,566</u>	<u>\$10,523,936</u>	<u>\$9,766,263</u>

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VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2013 compared to 2012:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for Services and Sales	\$382,882	\$372,487	\$1,786,914	\$1,833,481	\$2,169,796	\$2,205,968
Operating Grants and Contributions	602,556	567,125	0	0	602,556	567,125
Capital Grants and Contributions	215,975	268,386	62,265	55,536	278,240	323,922
Total Program Revenues	<u>1,201,413</u>	<u>1,207,998</u>	<u>1,849,179</u>	<u>1,889,017</u>	<u>3,050,592</u>	<u>3,097,015</u>
General Revenues:						
Property Taxes	673,857	674,314	0	0	673,857	674,314
Income Taxes	1,010,121	962,323	0	0	1,010,121	962,323
Other Local Taxes	373	487	0	0	373	487
Intergovernmental Revenues, Unrestricted	172,826	172,207	0	0	172,826	172,207
Investment Earnings	2,398	632	0	0	2,398	632
Miscellaneous	73,447	23,879	0	0	73,447	23,879
Total General Revenues	<u>1,933,022</u>	<u>1,833,842</u>	<u>0</u>	<u>0</u>	<u>1,933,022</u>	<u>1,833,842</u>
Total Revenues	<u>3,134,435</u>	<u>3,041,840</u>	<u>1,849,179</u>	<u>1,889,017</u>	<u>4,983,614</u>	<u>4,930,857</u>
Program Expenses						
Security of Persons and Property	1,245,721	1,129,729	0	0	1,245,721	1,129,729
Leisure Time Activities	253,724	261,140	0	0	253,724	261,140
Community Environment	337,500	170,434	0	0	337,500	170,434
Public Health and Welfare	35,638	32,446	0	0	35,638	32,446
Transportation	431,085	424,778	0	0	431,085	424,778
General Government	409,653	594,162	0	0	409,653	594,162
Interest and Fiscal Charges	27,883	31,009	0	0	27,883	31,009
Water	0	0	559,871	457,709	559,871	457,709
Wastewater	0	0	924,866	879,266	924,866	879,266
Total Expenses	<u>2,741,204</u>	<u>2,643,698</u>	<u>1,484,737</u>	<u>1,336,975</u>	<u>4,225,941</u>	<u>3,980,673</u>
Total Change in Net Position	393,231	398,142	364,442	552,042	757,673	950,184
Beginning Net Position	6,050,697	5,652,555	3,715,566	3,163,524	9,766,263	8,816,079
Ending Net Position	<u>\$6,443,928</u>	<u>\$6,050,697</u>	<u>\$4,080,008</u>	<u>\$3,715,566</u>	<u>\$10,523,936</u>	<u>\$9,766,263</u>

Governmental Activities

Net position of the Village's governmental activities increased \$393,231 or 6% from the previous year. Revenues remained consistent with the previous year. The increase in community environment expenses can be attributed to increases in Community Development Block Grant housing rehabilitation costs.

VILLAGE OF EAST PALESTINE, OHIO

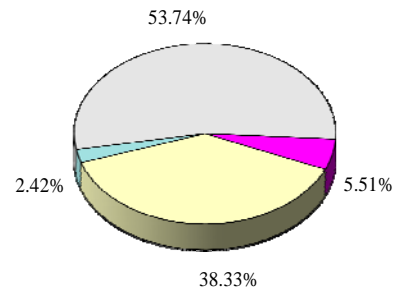
**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

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

Income taxes and property taxes made up 32% and 21% respectively of revenues for governmental activities for the Village in 2013. The Village's reliance upon tax revenues is demonstrated by the following graph indicating 54% of total revenues from general tax revenues:

Revenue Sources	2013	Percent of Total
General Tax Revenues	\$1,684,351	53.74%
Intergovernmental Revenues, Unrestricted	172,826	5.51%
Program Revenues	1,201,413	38.33%
General Other	75,845	2.42%
Total Revenue	<u>\$3,134,435</u>	<u>100.00%</u>



Business-Type Activities

Net position of the business-type activities increased \$364,442. This was a 10% increase from the previous year. Revenues and expenses remained consistent with the previous year.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The Village's governmental funds reported a combined fund balance of \$912,615, which is a decrease from last year's balance of \$938,891. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2013 and 2012:

	Fund Balance/Deficit December 31, 2013	Fund Balance/Deficit December 31, 2012	Increase (Decrease)
General	\$2,718,168	\$2,630,205	\$87,963
Capital Improvement	(2,105,836)	(2,119,804)	13,968
Street Levy Capital Replacement	26,500	83,975	(57,475)
Other Governmental	273,783	344,515	(70,732)
Total	<u>\$912,615</u>	<u>\$938,891</u>	<u>(\$26,276)</u>

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

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

	2013 Revenues	2012 Revenues	Increase (Decrease)
Taxes	\$1,071,807	\$1,071,056	\$751
Intergovernmental Revenues	188,954	86,300	102,654
Charges for Services	187,890	171,319	16,571
Licenses and Permits	72,184	71,605	579
Investment Earnings	2,257	534	1,723
Fines and Forfeitures	14,573	14,148	425
All Other Revenue	50,116	11,835	38,281
Total	<u>\$1,587,781</u>	<u>\$1,426,797</u>	<u>\$160,984</u>

General Fund revenues increased \$160,984, or approximately 11% from the prior year. A Federal Assistance to Firefighters Grant received for air pack purchases resulted in an increase in intergovernmental revenues.

	2013 Expenditures	2012 Expenditures	Increase (Decrease)
Current:			
Security of Persons and Property	\$975,660	\$875,188	\$100,472
General Government	413,330	449,269	(35,939)
Debt Service:			
Principal Retirement	51,818	11,758	40,060
Interest and Fiscal Charges	1,737	2,437	(700)
Total	<u>\$1,442,545</u>	<u>\$1,338,652</u>	<u>\$103,893</u>

General Fund expenditures in 2013 increased \$103,893 or 8% from 2012. Security of Persons and Property increased due to purchases of air packs for the fire department.

Capital Improvement Fund - The Capital Improvement Fund balance increased \$13,968 to a deficit fund balance of \$2,105,836. An interfund loan payable to the General Fund is the primary factor contributing to this fund's large negative fund balance.

Street Levy Capital Replacement Fund - The Street Levy Capital Replacement Fund reported a decrease in fund balance of \$57,475. Ohio Department of Transportation grants received in the prior year resulted in a decrease in revenues and expenditures in 2013.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2013***

Unaudited

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

During the course of fiscal year 2013 the Village amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,567,813 was not significantly different from original or final budget estimates. Budget basis expenditures of \$1,450,121 were 13% lower than final budget estimates due to an overall controlling of costs. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013 the Village had \$15,856,599 net of accumulated depreciation invested in land, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$6,226,281 was related to governmental activities and \$9,630,318 to the business-type activities. The following table shows fiscal years 2013 and 2012 balances:

	Governmental Activities		Increase (Decrease)
	2013	2012	
Land	\$414,574	\$266,674	\$147,900
Buildings	978,454	978,454	0
Improvements Other than Buildings	179,995	179,995	0
Machinery and Equipment	3,117,139	2,999,481	117,658
Infrastructure	5,033,129	4,754,962	278,167
Less: Accumulated Depreciation	(3,497,010)	(3,150,382)	(346,628)
Totals	<u>\$6,226,281</u>	<u>\$6,029,184</u>	<u>\$197,097</u>

Property purchased for new municipal offices resulted in the increase in land. The purchase of air packs for the fire department resulted in the increase in machinery and equipment while an increase in infrastructure can be attributed to the resurfacing of Main Street.

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2013	2012	
Land	\$177,511	\$177,511	\$0
Construction in Progress	544,517	622,173	(77,656)
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	935,857	935,857	0
Machinery and Equipment	1,419,480	1,381,895	37,585
Infrastructure	11,506,564	11,167,067	339,497
Less: Accumulated Depreciation	<u>(6,926,818)</u>	<u>(6,595,350)</u>	<u>(331,468)</u>
Totals	<u>\$9,630,318</u>	<u>\$9,662,360</u>	<u>(\$32,042)</u>

Water line replacement at Moore Lane resulted in the increase in infrastructure. Additional information on the Village's capital assets can be found in Note 9.

Debt

At December 31, 2013, the Village had \$2,985,000 in general obligation bonds outstanding, \$245,000 due within one year. The following table summarizes the Village's long-term obligations outstanding as of December 31, 2013 and 2012:

	2013	2012
Governmental Activities:		
Ohio Public Works Commission Loans	\$124,000	\$257,858
General Obligation Bonds	395,000	0
ODOT Street Improvement Loan	188,950	279,287
Ohio Department of Commerce Loan	113,750	126,750
Long Term Promissory Notes	112,662	433,694
Compensated Absences	<u>166,618</u>	<u>153,309</u>
Total Governmental Activities	1,100,980	1,250,898
Business-Type Activities:		
General Obligation Bonds	2,590,000	2,815,000
Ohio Public Works Commission Loans	871,726	910,454
Ohio Water Development Authority Loans	2,873,736	2,867,467
Capital Leases	34,906	51,480
Compensated Absences	<u>89,436</u>	<u>82,714</u>
Total Business-Type Activities	<u>6,459,804</u>	<u>6,727,115</u>
Totals	<u>\$7,560,784</u>	<u>\$7,978,013</u>

Under current state statutes, the Village's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2013, the Village's outstanding debt was below the legal limit. Additional information on the Village's long-term debt can be found in Note 12.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2013***

Unaudited

ECONOMIC FACTORS

At one time, the Village of East Palestine was known for its pottery production with the potteries being the largest employers in the Village. Currently the Village has only one pottery left. The Village has five industrial plants with the remaining businesses being mainly sole-proprietor businesses.

The residents of East Palestine passed a 5 mill street levy in 2010; with collections starting in 2011 and estimated collections of \$296,100. Currently in 2013 we repaved E. & W. Clark St., Kenmar, Pinetree Circle, W. Grant St. Ext., Sunset Blvd, Grandview Ave, Neely Manor, W. North Ave Ext, Evergreen and Edgewood. We are continuing to look at future paving projects in 2014 and 2015 using the Street Levy monies.

The Village of East Palestine had six (6) new businesses open up in 2013.

In 2013 we installed a new reservoir at Wheathill Rd.

The Village's 2014 budget is very conservative.

The school district is the Village's largest withholding employer of Village Income Tax.

REQUESTS FOR INFORMATION

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

VILLAGE OF EAST PALESTINE, OHIO

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VILLAGE OF EAST PALESTINE, OHIO

Statement of Net Position *December 31, 2013*

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 479,327	\$ 775,224	\$ 1,254,551
Investments	133,247	0	133,247
Receivables:			
Taxes	1,097,695	0	1,097,695
Accounts	71,184	219,599	290,783
Intergovernmental	232,404	0	232,404
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	5,692	7,387	13,079
Prepaid Items	23,770	12,215	35,985
Non-Depreciable Capital Assets	414,574	722,028	1,136,602
Depreciable Capital Assets, Net	5,811,707	8,908,290	14,719,997
Total Assets	8,304,600	10,609,743	18,914,343
Liabilities:			
Accounts Payable	38,919	27,148	66,067
Accrued Wages and Benefits	55,798	19,871	75,669
Intergovernmental Payable	8,459	0	8,459
Accrued Interest Payable	9,770	22,912	32,682
Noncurrent liabilities:			
Due within one year	219,103	522,059	741,162
Due in more than one year	881,877	5,937,745	6,819,622
Total Liabilities	1,213,926	6,529,735	7,743,661
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	646,746	0	646,746
Net Position:			
Net Investment in Capital Assets	5,291,919	3,259,950	8,551,869
Restricted For:			
Capital Projects	181,323	0	181,323
Other Purposes	330,687	0	330,687
Unrestricted	639,999	820,058	1,460,057
Total Net Position	\$ 6,443,928	\$ 4,080,008	\$ 10,523,936

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Activities
For the Year Ended December 31, 2013

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,245,721	\$ 202,843	\$ 15,477	\$ 104,211
Leisure Time Activities	253,724	87,725	6,218	0
Community Environment	337,500	0	265,284	0
Public Health and Welfare	35,638	20,130	0	0
Transportation	431,085	0	315,577	111,764
General Government	409,653	72,184	0	0
Interest and Fiscal Charges	27,883	0	0	0
Total Governmental Activities	2,741,204	382,882	602,556	215,975
Business-Type Activities:				
Water	559,871	618,103	0	62,265
Wastewater	924,866	1,168,811	0	0
Total Business-Type Activities	1,484,737	1,786,914	0	62,265
Totals	\$ 4,225,941	\$ 2,169,796	\$ 602,556	\$ 278,240

General Revenues

Property Taxes Levied for:
 General Purposes
 Special Purposes
Income Tax
Other Local Taxes
Intergovernmental Revenues, Unrestricted
Investment Earnings
Miscellaneous
Total General Revenues

Change in Net Position

Net Position Beginning of Year
Net Position End of Year

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (923,190)	\$ 0	\$ (923,190)
(159,781)	0	(159,781)
(72,216)	0	(72,216)
(15,508)	0	(15,508)
(3,744)	0	(3,744)
(337,469)	0	(337,469)
(27,883)	0	(27,883)
<u>(1,539,791)</u>	<u>0</u>	<u>(1,539,791)</u>
0	120,497	120,497
<u>0</u>	<u>243,945</u>	<u>243,945</u>
0	364,442	364,442
<u>\$ (1,539,791)</u>	<u>\$ 364,442</u>	<u>\$ (1,175,349)</u>
110,895	0	110,895
562,962	0	562,962
1,010,121	0	1,010,121
373	0	373
172,826	0	172,826
2,398	0	2,398
73,447	0	73,447
<u>1,933,022</u>	<u>0</u>	<u>1,933,022</u>
393,231	364,442	757,673
<u>6,050,697</u>	<u>3,715,566</u>	<u>9,766,263</u>
<u>\$ 6,443,928</u>	<u>\$ 4,080,008</u>	<u>\$ 10,523,936</u>

VILLAGE OF EAST PALESTINE, OHIO

**Balance Sheet
Governmental Funds
December 31, 2013**

	General	Capital Improvement	Street Levy Capital Replacement
Assets:			
Cash and Cash Equivalents	\$ 213,531	\$ 33,300	\$ 24,982
Investments	100,591	0	0
Receivables:			
Taxes	447,593	0	300,206
Accounts	71,184	0	0
Intergovernmental	37,477	0	23,325
Interfund Loans Receivable	2,174,136	0	0
Inventory of Supplies	0	0	0
Prepaid Items	22,942	0	0
Total Assets	\$ 3,067,454	\$ 33,300	\$ 348,513
Liabilities:			
Accounts Payable	\$ 24,673	\$ 0	\$ 0
Accrued Wages and Benefits Payable	42,816	0	0
Intergovernmental Payable	8,459	0	0
Interfund Loans Payable	0	2,139,136	0
Total Liabilities	75,948	2,139,136	0
Deferred Inflows of Resources:			
Unavailable Amounts	167,892	0	71,662
Property Tax Levy for Next Fiscal Year	105,446	0	250,351
Total Deferred Inflows of Resources	273,338	0	322,013
Fund Balance:			
Nonspendable	2,197,078	0	0
Restricted	0	0	26,500
Assigned	116,351	0	0
Unassigned	404,739	(2,105,836)	0
Total Fund Balance	2,718,168	(2,105,836)	26,500
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 3,067,454	\$ 33,300	\$ 348,513

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Other Governmental Funds	Total Governmental Funds
\$ 207,514	\$ 479,327
32,656	133,247
349,896	1,097,695
0	71,184
171,602	232,404
0	2,174,136
5,692	5,692
828	23,770
<u>\$ 768,188</u>	<u>\$ 4,217,455</u>
\$ 14,246	\$ 38,919
12,982	55,798
0	8,459
0	2,139,136
<u>27,228</u>	<u>2,242,312</u>
176,228	415,782
290,949	646,746
<u>467,177</u>	<u>1,062,528</u>
6,520	2,203,598
267,263	293,763
0	116,351
0	(1,701,097)
<u>273,783</u>	<u>912,615</u>
<u>\$ 768,188</u>	<u>\$ 4,217,455</u>

VILLAGE OF EAST PALESTINE, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2013***

Total Governmental Fund Balances	\$	912,615
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		6,226,281
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		415,782
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(166,618)	
Ohio Public Works Commission Loans Payable	(124,000)	
Ohio Department of Transportation Loan Payable	(188,950)	
Ohio Department of Commerce Loan Payable	(113,750)	
Long Term Promissory Notes	(112,662)	
General Obligation Bonds Payable	(395,000)	
Accrued Interest Payable	(9,770)	(1,110,750)
	<u> </u>	<u> </u>
<i>Net Position of Governmental Activities</i>	\$	<u>6,443,928</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

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VILLAGE OF EAST PALESTINE, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General	Capital Improvement	Street Levy Capital Replacement
Revenues:			
Taxes	\$ 1,071,807	\$ 0	\$ 261,672
Intergovernmental Revenues	188,954	0	46,802
Charges for Services	187,890	0	0
Licenses and Permits	72,184	0	0
Investment Earnings	2,257	0	0
Fines and Forfeitures	14,573	0	0
All Other Revenue	50,116	0	17,268
Total Revenue	<u>1,587,781</u>	<u>0</u>	<u>325,742</u>
Expenditures:			
Current:			
Security of Persons and Property	975,660	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
General Government	413,330	0	0
Capital Outlay	0	160,435	331,328
Debt Service:			
Principal Retirement	51,818	288,304	48,807
Interest & Fiscal Charges	1,737	28,741	3,082
Total Expenditures	<u>1,442,545</u>	<u>477,480</u>	<u>383,217</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	145,236	(477,480)	(57,475)
Other Financing Sources (Uses):			
Sale of Capital Assets	57,175	0	0
Loan Proceeds	0	0	0
Transfers In	0	96,448	0
Transfers Out	(114,448)	0	0
Bond Issuance	0	395,000	0
Total Other Financing Sources (Uses)	<u>(57,273)</u>	<u>491,448</u>	<u>0</u>
Net Change in Fund Balance	87,963	13,968	(57,475)
Fund Balance at Beginning of Year	2,630,205	(2,119,804)	83,975
Decrease in Inventory	0	0	0
Fund Balance End of Year	<u>\$ 2,718,168</u>	<u>\$ (2,105,836)</u>	<u>\$ 26,500</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Other Governmental Funds	Total Governmental Funds
\$ 297,382	\$ 1,630,861
631,812	867,568
107,855	295,745
0	72,184
141	2,398
380	14,953
6,063	73,447
1,043,633	2,957,156
118,403	1,094,063
218,355	218,355
337,500	337,500
35,638	35,638
266,764	266,764
0	413,330
94,552	586,315
64,984	453,913
1,300	34,860
1,137,496	3,440,738
(93,863)	(483,582)
0	57,175
7,450	7,450
18,000	114,448
0	(114,448)
0	395,000
25,450	459,625
(68,413)	(23,957)
344,515	938,891
(2,319)	(2,319)
\$ 273,783	\$ 912,615

VILLAGE OF EAST PALESTINE, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (23,957)

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

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

Capital Outlay	550,825	
Depreciation Expense	(346,628)	204,197

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(7,100)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		65,515
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The issuance of long-term debt (e.g. notes, bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net position.

Long Term Promissory Note	(7,450)	
General Obligation Bonds	(395,000)	(402,450)

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

Ohio Public Works Commission Loan Retirement	133,858	
Ohio Department of Transportation Loan Retirement	90,337	
Ohio Department of Commerce Loan Retirement	13,000	
Long Term Promissory Note Retirement	328,482	565,677

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		6,977
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(13,309)	
Change in Inventory	(2,319)	(15,628)

<i>Change in Net Position of Governmental Activities</i>		<u>\$ 393,231</u>
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See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 910,237	\$ 1,073,133	\$ 1,075,019	\$ 1,886
Intergovernmental Revenues	154,091	181,668	188,795	7,127
Charges for Services	196,592	231,775	187,890	(43,885)
Licenses and Permits	57,678	68,000	72,005	4,005
Investment Earnings	424	500	2,257	1,757
Fines and Forfeitures	10,178	12,000	14,985	2,985
All Other Revenues	6,077	7,165	26,862	19,697
Total Revenues	<u>1,335,277</u>	<u>1,574,241</u>	<u>1,567,813</u>	<u>(6,428)</u>
Expenditures:				
Current:				
Security of Persons and Property	853,057	1,044,985	982,456	62,529
General Government	470,453	576,299	414,110	162,189
Debt Service:				
Principal Retirement	42,301	51,818	51,818	0
Interest and Fiscal Charges	1,418	1,737	1,737	0
Total Expenditures	<u>1,367,229</u>	<u>1,674,839</u>	<u>1,450,121</u>	<u>224,718</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(31,952)	(100,598)	117,692	218,290
Other Financing Sources (Uses):				
Sale of Capital Assets	57,175	57,175	57,175	0
Transfers Out	(125,114)	(125,114)	(125,114)	0
Total Other Financing Sources (Uses):	<u>(67,939)</u>	<u>(67,939)</u>	<u>(67,939)</u>	<u>0</u>
Net Change in Fund Balance	(99,891)	(168,537)	49,753	218,290
Fund Balance at Beginning of Year	182,820	182,820	182,820	0
Prior Year Encumbrances	1,223	1,223	1,223	0
Fund Balance at End of Year	<u>\$ 84,152</u>	<u>\$ 15,506</u>	<u>\$ 233,796</u>	<u>\$ 218,290</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2013**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 484,696	\$ 290,528	\$ 775,224
Receivables:			
Accounts	73,157	146,442	219,599
Inventory of Supplies at Cost	2,522	4,865	7,387
Prepaid Items	5,060	7,155	12,215
Total Current Assets	565,435	448,990	1,014,425
Noncurrent Assets:			
Capital Assets, Net	2,805,432	6,824,886	9,630,318
Total Assets	3,370,867	7,273,876	10,644,743
LIABILITIES			
Current Liabilities:			
Accounts Payable	5,944	21,204	27,148
Accrued Wages and Benefits	6,966	12,905	19,871
Compensated Absences Payable - Current	7,127	12,755	19,882
Accrued Interest Payable	7,351	15,561	22,912
Capital Leases Payable - Current	8,577	8,577	17,154
General Obligation Bonds Payable - Current	24,000	211,000	235,000
OWDA Loans Payable - Current	11,632	187,263	198,895
OPWC Loans Payable - Current	15,934	35,194	51,128
Total Current Liabilities	87,531	504,459	591,990
Noncurrent Liabilities:			
Capital Leases Payable	8,876	8,876	17,752
General Obligation Bonds Payable	101,250	2,253,750	2,355,000
OWDA Loans Payable	824,304	1,850,537	2,674,841
OPWC Loans Payable	322,161	498,437	820,598
Interfund Loan Payable	10,000	25,000	35,000
Compensated Absences Payable	28,304	41,250	69,554
Total Noncurrent Liabilities	1,294,895	4,677,850	5,972,745
Total Liabilities	1,382,426	5,182,309	6,564,735
NET POSITION			
Net Investment in Capital Assets	1,488,698	1,771,252	3,259,950
Unrestricted	499,743	320,315	820,058
Total Net Position	\$ 1,988,441	\$ 2,091,567	\$ 4,080,008

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2013**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
Operating Revenues:			
Charges for Services	\$ 589,099	\$ 1,165,611	\$ 1,754,710
Total Operating Revenues	<u>589,099</u>	<u>1,165,611</u>	<u>1,754,710</u>
Operating Expenses:			
Personal Services	234,681	333,177	567,858
Contractual Services	108,511	182,993	291,504
Materials and Supplies	93,055	44,231	137,286
Depreciation	93,054	238,414	331,468
Total Operating Expenses	<u>529,301</u>	<u>798,815</u>	<u>1,328,116</u>
Operating Income	59,798	366,796	426,594
Non-Operating Revenue (Expenses):			
Interest and Fiscal Charges	(30,570)	(124,801)	(155,371)
Other Nonoperating Revenue	29,004	3,200	32,204
Other Nonoperating Expense	0	(1,250)	(1,250)
Total Non-Operating Revenues (Expenses)	<u>(1,566)</u>	<u>(122,851)</u>	<u>(124,417)</u>
Income Before Contributions	58,232	243,945	302,177
Contributions:			
Capital Contributions	62,265	0	62,265
Total Contributions	<u>62,265</u>	<u>0</u>	<u>62,265</u>
Change in Net Position	120,497	243,945	364,442
Net Position Beginning of Year	1,867,944	1,847,622	3,715,566
Net Position End of Year	<u>\$ 1,988,441</u>	<u>\$ 2,091,567</u>	<u>\$ 4,080,008</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2013

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$619,683	\$1,172,228	\$1,791,911
Cash Payments for Goods and Services	(173,070)	(220,750)	(393,820)
Cash Payments to Employees	(232,295)	(329,497)	(561,792)
Net Cash Provided by Operating Activities	214,318	621,981	836,299
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(270,128)	(45,872)	(316,000)
Capital Contributions	62,265	0	62,265
Principal Paid on Ohio Water Development Authority Loans	(81,188)	(184,583)	(265,771)
Proceeds from Ohio Water Development Authority Loans	272,040	0	272,040
Principal Paid on General Obligation Bonds	(22,500)	(202,500)	(225,000)
Principal Paid on Ohio Public Works Commission Loans	(3,534)	(35,194)	(38,728)
Interest Paid on All Debt	(25,223)	(126,456)	(151,679)
Net Cash Used by Capital and Related Financing Activities	(68,268)	(594,605)	(662,873)
Increase in Cash and Cash Equivalents	146,050	27,376	173,426
Cash and Cash Equivalents at Beginning of Year	338,646	263,152	601,798
Cash and Cash Equivalents at End of Year	\$484,696	\$290,528	\$775,224
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$59,798	\$366,796	\$426,594
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	93,054	238,414	331,468
Miscellaneous Nonoperating Revenue	29,004	3,200	32,204
Miscellaneous Nonoperating Expense	0	(1,250)	(1,250)
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	1,580	3,417	4,997
Decrease in Inventory	31,587	21	31,608
Increase in Prepaid Items	(1,721)	(1,860)	(3,581)
Increase (Decrease) in Accounts Payable	(1,229)	9,904	8,675
Decrease in Accrued Wages and Benefits	(487)	(651)	(1,138)
Increase in Compensated Absences	2,732	3,990	6,722
Total Adjustments	154,520	255,185	409,705
Net Cash Provided by Operating Activities	\$214,318	\$621,981	\$836,299

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of East Palestine, Ohio (the "Village") is a home rule municipal corporation created under the laws of the State of Ohio. East Palestine was first incorporated as a village on February 27, 1876. The Village currently operates under and is governed by its own Charter. The current Charter, which provides for a Council-Village Manager form of government, was adopted in 1990.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* as amended by GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"* and GASB Statement No. 61, *"The Financial Reporting Entity; Omnibus"* in that the financial statements include all organizations, activities, functions and component units for which the Village (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the Village's ability to impose its will over the organization, or the possibility that the organization will provide a financial benefit to or impose a financial burden on the Village. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the Village's reporting entity. Based on the foregoing, the reporting entity of the Village includes the following services: police and fire protection, emergency medical, parks, recreation, planning, zoning, street maintenance and other governmental services. In addition, the Village owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

The accounting policies and financial reporting practices of the Village conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the Village:

Governmental Funds - The governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the Village's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the Village's major governmental funds:

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

General Fund - This fund is used to account for all financial resources except those resources accounted for in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio and the provisions of the Village Charter.

Capital Improvement Fund - This fund is used to account for the financial resources used for the major capital projects undertaken by the Village other than those accounted for in the Water and Wastewater funds.

Street Levy Capital Replacement Fund - This fund is used to account for property taxes levied for Village street and infrastructure improvements.

Proprietary Funds - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities, and deferred outflows/inflows of resources associated with the operation of the proprietary funds are included on the statement of net position. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Village's major enterprise funds are:

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

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

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the Village 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 Village that are governmental and those that are considered business-type activities.

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

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

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the Village is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

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

Revenues considered susceptible to accrual at year end include income taxes, interest on investments, special assessments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

Property taxes measurable as of December 31, 2013 but which are not intended to finance 2013 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the government-wide statements and proprietary funds. Revenues are recognized when earned and expenses are recognized when they are incurred.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the Village Council.

1. Tax Budget

By July 15, the Village Manager submits an annual tax budget for the following fiscal year to Village Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the Village by September 1 of each year. As part of the certification process, the Village receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2013.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Village Council. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

5. Budgetary Basis of Accounting

The Village's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	\$87,963
Increase (Decrease):	
Accrued Revenues at December 31, 2013 received during 2014	(282,916)
Accrued Revenues at December 31, 2012 received during 2013	286,512
Accrued Expenditures at December 31, 2013 paid during 2014	75,948
Accrued Expenditures at December 31, 2012 paid during 2013	(66,950)
2012 Prepaids for 2013	21,417
2013 Prepaids for 2014	(22,942)
Outstanding Encumbrances	(15,049)
Perspective Difference:	
Activity of Funds Reclassified for GAAP Reporting Purposes	<u>(34,230)</u>
Budget Basis	<u><u>\$49,753</u></u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because of its highly liquid nature.

The Village pools a majority of its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' shares of equity in pooled repurchase agreements and certificates of deposit are considered to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the Village reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost.

The Village has invested funds in the STAR Ohio during 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2013. See Note 4, "Cash, Cash Equivalents and Investments."

H. Inventory

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

I. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

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

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

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

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

3. Depreciation

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

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

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loans	Water Fund, Wastewater Fund
General Obligation Bonds	Water Fund, Wastewater Fund
Ohio Public Works Commission Loan	Capital Improvement Fund, Water Fund, Wastewater Fund
Compensated Absences	General Fund, Parks and Recreation Fund, Street Construction, Maintenance and Repair Fund, Water Fund, Wastewater Fund
Ohio Department of Transportation Loan	General Fund, Capital Improvement Fund, Street Construction, Maintenance and Repair Fund
Ohio Department of Commerce Loan	Fire Capital Replacement Fund
Long Term Promissory Notes	General Fund, Parks and Recreation Fund, Capital Improvement Fund, Police Levy Fund, Capital Replacement Fund
Capital Leases	Water Fund, Wastewater Fund

K. Compensated Absences

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

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

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

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

L. Net Position

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. 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 use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Pensions

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

N. Interfund Activity

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Village is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

Restricted – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Village to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village's highest level of decision making authority. For the Village, these constraints consist of ordinances passed by Village Council. Committed amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts. The Village has no fund balances reported as committed at December 31, 2013.

Assigned – Assigned fund balance consists of amounts that are constrained by the Village's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Operating Revenues and Expenses

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Village and that are either unusual in nature or infrequent in occurrence. The Village had no extraordinary or special items to report during fiscal year 2013.

R. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Village reports no deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficit at December 31, 2013 of \$2,105,836 in the Capital Improvement Fund (capital projects fund) arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The general fund provides transfers when cash is required, not when accruals occur.

NOTE 3 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	Capital Improvement Fund	Street Levy Capital Replacement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid Items	\$22,942	\$0	\$0	\$828	\$23,770
Supplies Inventory	0	0	0	5,692	5,692
Interfund Loans Receivable	2,174,136	0	0	0	2,174,136
Total Nonspendable	2,197,078	0	0	6,520	2,203,598
Restricted:					
Fire Capital Improvements	0	0	0	8,206	8,206
Police Capital Improvements	0	0	0	27,534	27,534
Street Capital Improvements	0	0	26,500	0	26,500
Community Development and Improvement	0	0	0	52,093	52,093
Street Maintenance and Repair	0	0	0	109,280	109,280
Fire Protection	0	0	0	435	435
EMS Training	0	0	0	8,464	8,464
Parks and Recreation	0	0	0	292	292
Cemetery Maintenance	0	0	0	34,745	34,745
Law Enforcement	0	0	0	26,214	26,214
Total Restricted	0	0	26,500	267,263	293,763
Assigned:					
Other Purposes	116,351	0	0	0	116,351
Total Assigned	116,351	0	0	0	116,351
Unassigned (Deficits):					
	404,739	(2,105,836)	0	0	(1,701,097)
Total Fund Balances	\$2,718,168	(\$2,105,836)	\$26,500	\$273,783	\$912,615

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the Village into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the Village. Such funds must be maintained either as cash in the Village Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of Village cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Village places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the Village's deposits was \$1,316,638 and the bank balance was \$1,338,088. Federal depository insurance covered the entire bank balance.

Investment earnings of \$1,840 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The Village's investments at December 31, 2013 are summarized below:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$71,160	AAAm ¹	\$71,160	\$0	\$0
Total Investments	<u>\$71,160</u>		<u>\$71,160</u>	<u>\$0</u>	<u>\$0</u>

¹ Standard & Poor's

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

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio and certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$1,254,551	\$133,247
Certificates of Deposit (with maturities of more than 3 months)	133,247	(133,247)
Investments:		
STAR Ohio	<u>(71,160)</u>	<u>71,160</u>
Per GASB Statement No. 3	<u>\$1,316,638</u>	<u>\$71,160</u>

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property and located in the Village. Real property taxes (other than public utility) collected during 2013 were levied after October 1, 2012 on assessed values as of January 1, 2012, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 2010. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 5 - TAXES (Continued)

A. Property Taxes (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the Village of East Palestine. The County Auditor periodically remits to the Village its portion of the taxes collected.

The full property tax rate for all Village operations for the year ended December 31, 2013 was \$13.90 per \$1,000 of assessed value. The assessed value upon which the 2013 tax levy was based was \$61,415,330. This amount constitutes \$58,302,360 in real property assessed value and \$3,112,970 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the Village's share is 1.39% (13.90 mills) of assessed value.

B. Income Taxes

The Village levies a tax of 1.0% on all salaries, wages, commissions and other compensation, on net profits earned within the Village and on incomes of residents earned outside the Village. Employers within the Village are required to withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2013 consisted of taxes, accounts receivable, interfund loans receivable and intergovernmental receivables.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2013:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$0	\$114,448
Capital Improvement Fund	96,448	0
Other Governmental Funds	18,000	0
Totals	<u>\$114,448</u>	<u>\$114,448</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2013:

<u>Fund</u>	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
Governmental Funds:		
General Fund	\$2,174,136	\$0
Capital Improvement Fund	0	2,139,136
Total Governmental Funds	<u>2,174,136</u>	<u>2,139,136</u>
Proprietary Funds:		
Water Fund	0	10,000
Wastewater Fund	0	25,000
Total Proprietary Funds	<u>0</u>	<u>35,000</u>
Totals	<u>\$2,174,136</u>	<u>\$2,174,136</u>

These interfund loans are the result of advances made to the Capital Improvement Fund, Water Fund, and Wastewater Fund from the General Fund for various capital improvements. The loans were initially made during the period from 1996 to 2006. In 2013 the City passed an ordinance to suspend repayments of the interfund loans through December 31, 2015.

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VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 9 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2013:

Historical Cost:

Class	December 31, 2012	Additions	Deletions	December 31, 2013
Capital assets not being depreciated:				
Land	\$266,674	\$155,000	(\$7,100)	\$414,574
Subtotal	266,674	155,000	(7,100)	414,574
Capital assets being depreciated:				
Buildings	978,454	0	0	978,454
Improvements Other than Buildings	179,995	0	0	179,995
Machinery and Equipment	2,999,481	117,658	0	3,117,139
Infrastructure	4,754,962	278,167	0	5,033,129
Subtotal	8,912,892	395,825	0	9,308,717
Total Cost	\$9,179,566	\$550,825	(\$7,100)	\$9,723,291

Accumulated Depreciation:

Class	December 31, 2012	Additions	Deletions	December 31, 2013
Buildings	(\$422,328)	(\$21,257)	\$0	(\$443,585)
Improvements Other than Buildings	(75,888)	(8,099)	0	(83,987)
Machinery and Equipment	(2,042,319)	(153,527)	0	(2,195,846)
Infrastructure	(609,847)	(163,745)	0	(773,592)
Total Depreciation	(\$3,150,382)	(\$346,628) *	\$0	(\$3,497,010)
Net Value:	\$6,029,184			\$6,226,281

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$142,795
Leisure Time Activities	35,305
Transportation	160,224
General Government	8,304
Total Depreciation Expense	<u>\$346,628</u>

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 9 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2013:

Historical Cost:

Class	December 31, 2012	Additions	Deletions	December 31, 2013
<i>Capital assets not being depreciated:</i>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	622,173	261,841	(339,497)	544,517
Subtotal	<u>799,684</u>	<u>261,841</u>	<u>(339,497)</u>	<u>722,028</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	935,857	0	0	935,857
Machinery and Equipment	1,381,895	37,585	0	1,419,480
Infrastructure	11,167,067	339,497	0	11,506,564
Subtotal	<u>15,458,026</u>	<u>377,082</u>	<u>0</u>	<u>15,835,108</u>
Total Cost	<u><u>\$16,257,710</u></u>	<u><u>\$638,923</u></u>	<u><u>(\$339,497)</u></u>	<u><u>\$16,557,136</u></u>

Accumulated Depreciation:

Class	December 31, 2012	Additions	Deletions	December 31, 2013
Buildings	(\$1,429,727)	(\$49,330)	\$0	(\$1,479,057)
Improvements Other than Buildings	(311,402)	(18,554)	0	(329,956)
Machinery and Equipment	(1,288,444)	(20,183)	0	(1,308,627)
Infrastructure	(3,565,777)	(243,401)	0	(3,809,178)
Total Depreciation	<u>(\$6,595,350)</u>	<u>(\$331,468)</u>	<u>\$0</u>	<u>(\$6,926,818)</u>
<i>Net Value:</i>	<u><u>\$9,662,360</u></u>			<u><u>\$9,630,318</u></u>

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

A. Ohio Public Employees Retirement System ("OPERS")

The following information was provided by OPERS to assist the Village in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The ORC provides statutory authority for employee and employer contributions. For 2013, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2013 employer contribution rate for local government employer units was 14.00% of covered payroll, which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the Village's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional and Combined Plans was 13.0% for calendar year 2013. The contribution requirements of plan members and the Village are established and may be amended by the OPERS Board. The Village's contributions for pension obligations to OPERS for the years ending December 31, 2013, 2012, and 2011 were \$125,367, \$91,701 and \$92,446, respectively, which were equal to the required contributions for each year. Contributions to the member-directed plan for 2013 were \$2,184 made by the Village and \$1,560 made by the plan members.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

All Village full-time police officers and full-time firefighters participate in 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. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164, by calling (614) 228-2975, or by visiting www.op-f.org.

From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.0% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, employers were required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the Village’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions used to fund pension obligations from January 1, 2013 through May 31, 2013 was 14.81% for police officers and 19.31% for firefighters. The portion of employer contributions used to fund pension obligations from June 1, 2013 through December 31, 2013 was 16.65% for police officers and 21.15% for firefighters. The Village's contributions for pension obligations to the OP&F Fund for the years ending December 31, 2013, 2012, and 2011 were \$48,015, \$35,566 and \$38,081 for police officers and \$11,168, \$9,375 and \$9,189 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (“OPERS”)

Plan Description – 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, which includes a medical plan, prescription drug program and Medicare Part B Premium reimbursement, to qualifying member 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.

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 health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (“OPERS”) (Continued)

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 1.0% for calendar year 2013. 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.

The Village's contributions for health care to the OPERS for the years ending December 31, 2013, 2012, and 2011 were \$9,644, \$36,680 and \$36,979, respectively, which were equal to the required contributions for each year.

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.

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

Plan Description – The Village contributes to the OP&F sponsored health care program, a cost-sharing multiple-employer defined postemployment 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.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

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 is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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 2013, the portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013 for both police officers and firefighters. 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 Village's contributions for health care to the OP&F for the years ending December 31, 2013, 2012, and 2011 were \$10,933, \$18,829 and \$20,161 for police and \$1,982, \$3,668 and \$3,596 for firefighters, respectively, which were equal to the required contributions for each year.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 12 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the Village at December 31, 2013 were as follows:

			Balance December 31, 2012	Additions	Deductions	Balance December 31, 2013	Amount Due Within One Year
Governmental Activities:							
Ohio Public Works Commission Loans:							
Bridge Replacement	0.00%	2029	\$132,000	\$0	(\$8,000)	\$124,000	\$8,000
Roadway Improvements	0.00%	2013	125,858	0	(125,858)	0	0
Total OPWC Loans:			257,858	0	(133,858)	124,000	8,000
General Obligation Bonds:							
Various Purpose	4.75%	2033	0	395,000	0	395,000	10,000
Ohio Department of Transportation Loan:							
Street Improvement	3.00%	2015	279,287	0	(90,337)	188,950	93,068
Ohio Department of Commerce Loan:							
Fire Truck	0.00%	2022	126,750	0	(13,000)	113,750	13,000
Long Term Promissory Notes:							
City Hall Building	5.50%	2013	42,818	0	(42,818)	0	0
West Street Bridge	5.50%	2013	238,967	0	(238,967)	0	0
Road Paving	2.85%	2015	108,150	0	(34,713)	73,437	35,702
Roof Repair	3.35%	2016	43,759	0	(11,984)	31,775	12,392
Cemetery Mower	3.15%	2017	0	7,450	0	7,450	1,773
Total Long Term Promissory Notes			433,694	7,450	(328,482)	112,662	49,867
Compensated Absences Payable			153,309	51,658	(38,349)	166,618	45,168
Total Governmental Activities			<u>\$1,250,898</u>	<u>\$454,108</u>	<u>(\$604,026)</u>	<u>\$1,100,980</u>	<u>\$219,103</u>

In April 2013 the Village issued a promissory note in the amount of \$7,450 to finance the acquisition of a mower for the cemetery department. The promissory note has an interest rate of 3.15% and matures in May 2017.

In September 2013 the Village issued \$395,000 of various purpose general obligation bonds. \$158,500 of the bond proceeds will be used to finance the costs of acquiring and renovating a new municipal building and the remaining \$236,500 to pay off the remaining balance of the West Street Bridge long term promissory note. The various purpose bonds carry an interest rate of 4.75% and mature in December 2033.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

			Balance December 31, 2012	Additions	Deductions	Balance December 31, 2013	Amount Due Within One Year
Business-Type Activities:							
General Obligation Bonds:							
Various Purpose Refunding Bond	2.0-3.25%	2018	\$985,000	\$0	(\$150,000)	\$835,000	\$160,000
Sewerage System Refunding Bond	2.25-5.0%	2031	1,830,000	0	(75,000)	1,755,000	75,000
Total General Obligation Bonds:			2,815,000	0	(225,000)	2,590,000	235,000
Ohio Public Works Commission Loans:							
Phase Five Sanitary Sewer	0.00%	2025	350,350	0	(26,950)	323,400	26,950
Brookdale Water	0.00%	2039	93,629	0	(3,534)	90,095	3,534
Brookdale Sewer	0.00%	2039	218,475	0	(8,244)	210,231	8,244
Water Storage Facility	0.00%	2033	248,000	0	0	248,000	12,400
Total OPWC Loans:			910,454	0	(38,728)	871,726	51,128
Ohio Water Development Authority Loans:							
Sewer Project - Phase Two	2.20%	2020	528,340	0	(65,537)	462,803	66,987
Wastewater Treatment Plant	1.00%	2025	1,594,902	0	(115,477)	1,479,425	116,635
Waterline Extension	3.95%	2038	82,461	0	(1,864)	80,597	1,939
Sewer Line Extension	3.95%	2038	54,827	0	(1,240)	53,587	1,289
Jintown Reservoir	4.42%	2015	60,938	0	(60,938)	0	0
WWTP Phosphorous Reduction	1.00%	2030	44,314	0	(2,329)	41,985	2,352
Water Booster Station	4.14%	2032	271,299	0	(8,488)	262,811	9,693
Moore Ln & Main Street Water Line	3.80%	2018	28,042	0	(28,042)	0	0
Water Storage Tank Design	3.67%	2018	45,888	0	(45,888)	0	0
Moore Lane	2.00%	2042	156,456	115,317	(11,121)	260,652	0
Wheathill Reservoir	1.94%	2043	0	290,091	(58,215)	231,876	0
Total OWDA Loans:			2,867,467	405,408	(399,139)	2,873,736	198,895
Capital Leases			51,480	0	(16,574)	34,906	17,154
Compensated Absences			82,714	23,747	(17,025)	89,436	19,882
Total Business-Type Activities			\$6,727,115	\$429,155	(\$696,466)	\$6,459,804	\$522,059

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

A. Ohio Water Development Authority Loans

In 1997, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 2.2% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2000 based on a loan amount of \$1,237,264 to be paid through 2020. As of December 31, 2013, the loan had an outstanding balance of \$462,803.

In 2004, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.0% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2006 based on a loan amount of \$2,371,778 to be paid through 2025. As of December 31, 2013, the loan had an outstanding balance of \$1,479,425.

In 2009, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.95% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$89,228 to be paid through 2038. As of December 31, 2013, the loan had an outstanding balance of \$80,597.

In 2009, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 3.95% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$59,327 to be paid through 2038. As of December 31, 2013, the loan had an outstanding balance of \$53,587.

In 2010, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water reservoir improvements. The interest rate on the loan is 4.42% per annum. This loan is payable from water service charges. In 2013 the loan was rolled into the Wheathill Reservoir OWDA loan.

In 2010, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.00% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2010 based on a loan amount of \$50,036 to be paid through 2030. As of December 31, 2013, the loan had an outstanding balance of \$41,985.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

A. Ohio Water Development Authority Loans (Continued)

In 2011, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for a water booster station. The interest rate on the loan is 4.14% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2012 based on a loan amount of \$276,625 to be paid through 2032. As of December 31, 2013, the loan had an outstanding balance of \$262,811.

In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.80% per annum. This loan is payable from water service charges. In 2013 the loan was rolled into the Moore Lane OWDA loan.

In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.67% per annum. This loan is payable from water service charges. In 2013 the loan was rolled into the Wheathill Reservoir OWDA loan.

In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 2.00% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2013 the Village had received \$339,498. As of December 31, 2013 the loan has not been finalized and there is no amortization schedule for the loan.

In 2013, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 1.94% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2013 the Village had received \$290,091. As of December 31, 2013 the loan has not been finalized and there is no amortization schedule for the loan.

B. Defeased Debt

In February 2003, the Village defeased \$2,236,000 of FHA Loans for Sewer Improvements through the issuance of \$2,235,000 of General Obligation Bonds for Sewer System Improvements. The net proceeds of the 2003 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,753,000 at December 31, 2013, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

VILLAGE OF EAST PALESTINE, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2013*

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

B. Defeased Debt (Continued)

In December 2011, the Village defeased \$1,225,000 of General Obligation Bonds dated February 1999 through the issuance of \$1,280,000 of General Obligation Bonds for Water and Sewer System Improvements. The net proceeds of the 2011 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$820,000 at December 31, 2013, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

C. Principal and Interest Requirements

A summary of the Village's future long-term debt funding requirements, including principal and interest payments as of December 31, 2013 follows:

Years	Governmental Activities							
	OPWC Loan		ODOC Loan		ODOT Loan		Promissory Notes	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$8,000	\$0	\$13,000	\$0	\$93,068	\$4,975	\$49,867	\$3,214
2015	8,000	0	13,000	0	95,882	2,162	52,379	2,346
2016	8,000	0	13,000	0	0	0	8,462	191
2017	8,000	0	13,000	0	0	0	1,954	65
2018	8,000	0	13,000	0	0	0	0	0
2019-2023	40,000	0	48,750	0	0	0	0	0
2024-2028	40,000	0	0	0	0	0	0	0
2029-2033	4,000	0	0	0	0	0	0	0
2034-2038	0	0	0	0	0	0	0	0
2039	0	0	0	0	0	0	0	0
Totals	\$124,000	\$0	\$113,750	\$0	\$188,950	\$7,137	\$112,662	\$5,816

Years	Business-Type Activities						Governmental Activities	
	General Obligation Bonds		OWDA Loans		OPWC Loan		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$235,000	\$100,000	\$198,895	\$40,782	\$51,128	\$0	\$10,000	\$22,827
2015	235,000	93,138	202,103	37,574	51,128	0	15,000	18,288
2016	250,000	86,276	205,378	34,298	51,128	0	15,000	17,576
2017	255,000	78,576	208,721	30,951	51,128	0	15,000	16,862
2018	260,000	70,714	212,136	27,538	51,128	0	15,000	16,150
2019-2023	480,000	270,830	836,662	93,006	255,640	0	85,000	69,826
2024-2028	600,000	155,252	377,500	43,450	174,790	0	110,000	47,262
2029-2033	275,000	20,750	101,609	16,685	120,890	0	130,000	19,002
2034-2038	0	0	38,204	4,273	58,877	0	0	0
2039	0	0	0	0	5,889	0	0	0
Totals	\$2,590,000	\$875,536	\$2,381,208	\$328,557	\$871,726	\$0	\$395,000	\$227,793

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 13 - CAPITAL LEASES

The Village leases a loader under a capital lease. The original cost of the equipment and the related liability are reported on the Proprietary Fund Statement of Net Position and Government – wide Statement of Net Position.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2013:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2014	\$18,375
2015	<u>18,375</u>
Minimum Lease Payments	<u>36,750</u>
Less amount representing interest at the Village's incremental borrowing rate of interest	<u>(1,844)</u>
Present value of minimum lease payments	<u><u>\$34,906</u></u>

NOTE 14 - INSURANCE AND RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Village is a participant in the Public Entities Pool of Ohio (the “PEP Pool”). The PEP Pool was established in 1987 and is administered under contract by the American Risk Pooling Consultants, Inc. (ARPCO) to provide a program of property and casualty insurance for its Member organizations throughout the State of Ohio.

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

The Village obtained insurance coverage from the Pool from 2000 to the present for losses related to general liability, public official's liability, automobile, law enforcement liability, medical malpractice liability, and employee benefits liability.

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 14 - INSURANCE AND RISK MANAGEMENT (Continued)

Each participant makes an annual “contribution” to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a “surplus contribution” that is used to build the Pool’s retained earning account to fund the activities of the Pool. During 2013, the Village made contributions to the Pool totaling \$73,817.

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool’s maximum net loss on individual risks.

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

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

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

NOTE 15 - CONTINGENCIES

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

NOTE 16 - CONSTRUCTION COMMITMENTS

The Village had the following contractual commitments at December 31, 2013:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Wheathill Reservoir	\$157,112	2014

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 17 – SUBSEQUENT EVENTS

In September 2014 the Village entered into a \$109,000 loan for the purchase of an Osage Super Warrior Type III ambulance. This loan matures in May 2019.

VILLAGE OF EAST PALESTINE, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2012*

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2012 are as follows:

- ❑ In total, net position increased \$950,184. Net position of governmental activities increased \$398,142, which represents a 7% change from 2011. Net position of business-type activities increased \$552,042 or 17% from 2011.
- ❑ General revenues accounted for \$1,833,842 in revenue or 37% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,097,015, 63% of total revenues of \$4,930,857.
- ❑ The Village had \$2,643,698 in expenses related to governmental activities; only \$1,207,998 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,833,842 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,426,797 in revenues and \$1,338,652 in expenditures. The general fund's fund balance decreased \$15,798 to a balance of \$2,630,205.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

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

VILLAGE OF EAST PALESTINE, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2012*

Unaudited

Government-wide Statements

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

The two government-wide statements report the Village's net position and how it has changed. Net position is one way to measure the Village's financial health.

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

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

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

Fund Financial Statements

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

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

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2012***

Unaudited

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

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The following table provides a summary of the Village's net position for 2012 compared to 2011.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$2,021,392	\$2,126,738	\$839,023	\$677,919	\$2,860,415	\$2,804,657
Capital Assets, Net	6,029,184	5,445,862	9,662,360	9,395,548	15,691,544	14,841,410
Total Assets	<u>8,050,576</u>	<u>7,572,600</u>	<u>10,501,383</u>	<u>10,073,467</u>	<u>18,551,959</u>	<u>17,646,067</u>
Long-term Obligations	1,250,898	1,171,500	6,727,115	6,777,823	7,978,013	7,949,323
Other Liabilities	113,435	120,027	58,702	132,120	172,137	252,147
Total Liabilities	<u>1,364,333</u>	<u>1,291,527</u>	<u>6,785,817</u>	<u>6,909,943</u>	<u>8,150,150</u>	<u>8,201,470</u>
Deferred Inflows of Resources	<u>635,546</u>	<u>628,518</u>	<u>0</u>	<u>0</u>	<u>635,546</u>	<u>628,518</u>
Net Position						
Net Investment in Capital Assets	4,931,595	4,362,386	3,017,959	2,770,413	7,949,554	7,132,799
Restricted	626,265	369,977	0	0	626,265	369,977
Unrestricted	492,837	920,192	697,607	393,111	1,190,444	1,313,303
Total Net Position	<u>\$6,050,697</u>	<u>\$5,652,555</u>	<u>\$3,715,566</u>	<u>\$3,163,524</u>	<u>\$9,766,263</u>	<u>\$8,816,079</u>

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VILLAGE OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2012

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2012 compared to 2011:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services and Sales	\$372,487	\$423,373	\$1,833,481	\$1,846,236	\$2,205,968	\$2,269,609
Operating Grants and Contributions	567,125	292,601	0	0	567,125	292,601
Capital Grants and Contributions	268,386	509,476	55,536	121,743	323,922	631,219
Total Program Revenues	<u>1,207,998</u>	<u>1,225,450</u>	<u>1,889,017</u>	<u>1,967,979</u>	<u>3,097,015</u>	<u>3,193,429</u>
General Revenues:						
Property Taxes	674,314	672,161	0	0	674,314	672,161
Income Taxes	962,323	887,182	0	0	962,323	887,182
Other Local Taxes	487	654	0	0	487	654
Intergovernmental Revenues, Unrestricted	172,207	201,290	0	0	172,207	201,290
Investment Earnings	632	620	0	0	632	620
Miscellaneous	23,879	70,951	0	0	23,879	70,951
Total General Revenues	<u>1,833,842</u>	<u>1,832,858</u>	<u>0</u>	<u>0</u>	<u>1,833,842</u>	<u>1,832,858</u>
Total Revenues	<u>3,041,840</u>	<u>3,058,308</u>	<u>1,889,017</u>	<u>1,967,979</u>	<u>4,930,857</u>	<u>5,026,287</u>
Program Expenses						
Security of Persons and Property	1,129,729	1,113,201	0	0	1,129,729	1,113,201
Leisure Time Activities	261,140	243,110	0	0	261,140	243,110
Community Environment	170,434	318,545	0	0	170,434	318,545
Public Health and Welfare	32,446	60,718	0	0	32,446	60,718
Transportation	424,778	315,023	0	0	424,778	315,023
General Government	594,162	571,021	0	0	594,162	571,021
Interest and Fiscal Charges	31,009	29,525	0	0	31,009	29,525
Water	0	0	457,709	699,157	457,709	699,157
Wastewater	0	0	879,266	1,054,533	879,266	1,054,533
Total Expenses	<u>2,643,698</u>	<u>2,651,143</u>	<u>1,336,975</u>	<u>1,753,690</u>	<u>3,980,673</u>	<u>4,404,833</u>
Total Change in Net Position	398,142	407,165	552,042	214,289	950,184	621,454
Beginning Net Position	5,652,555	5,245,390	3,163,524	2,949,235	8,816,079	8,194,625
Ending Net Position	<u>\$6,050,697</u>	<u>\$5,652,555</u>	<u>\$3,715,566</u>	<u>\$3,163,524</u>	<u>\$9,766,263</u>	<u>\$8,816,079</u>

Governmental Activities

Net position of the Village's governmental activities increased \$398,142 or 7% from the previous year. A decrease in ambulance run receipts resulted in the decrease in charges for services and sales. Ohio Public Works Commission and Ohio Department of Transportation Grants received for street improvements in the prior year resulted in the subsequent decrease in capital grants and contributions in 2012. Overall expenses remained consistent with the previous year. The decrease in community environment expenses can be attributed to decreases in Community Development Block Grant housing rehabilitation costs.

VILLAGE OF EAST PALESTINE, OHIO

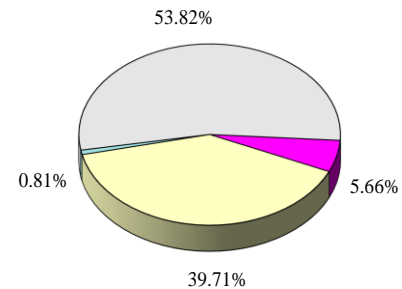
**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

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

Income taxes and property taxes made up 32% and 22% respectively of revenues for governmental activities for the Village in 2012. The Village's reliance upon tax revenues is demonstrated by the following graph indicating 54% of total revenues from general tax revenues:

Revenue Sources	2012	Percent of Total
General Tax Revenues	\$1,637,124	53.82%
Intergovernmental Revenues, Unrestricted	172,207	5.66%
Program Revenues	1,207,998	39.71%
General Other	24,511	0.81%
Total Revenue	<u>\$3,041,840</u>	<u>100.00%</u>



Business-Type Activities

Net position of the business-type activities increased \$552,042. This was a 17% increase from the previous year. Charges for services and sales were consistent with the previous year. Decreases in expenses can be attributed to lower salary costs in the water department and lower interest costs in the wastewater department.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The Village's governmental funds reported a combined fund balance of \$938,891, which is a decrease from last year's balance of \$1,032,169. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2012 and 2011:

	Fund Balance/Deficit December 31, 2012	Fund Balance/Deficit December 31, 2011	Increase (Decrease)
General	\$2,630,205	\$2,646,003	(\$15,798)
Fire Capital Replacement	4,418	155,899	(151,481)
Capital Improvement	(2,119,804)	(2,128,244)	8,440
Street Levy Capital Replacement	83,975	97,787	(13,812)
Other Governmental	340,097	260,724	79,373
Total	<u>\$938,891</u>	<u>\$1,032,169</u>	<u>(\$93,278)</u>

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2012***

Unaudited

General Fund – The Village’s General Fund balance change is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2012 Revenues	2011 Revenues	Increase (Decrease)
Taxes	\$1,071,056	\$1,031,438	\$39,618
Intergovernmental Revenues	86,300	119,059	(32,759)
Charges for Services	171,319	218,765	(47,446)
Licenses and Permits	71,605	74,733	(3,128)
Investment Earnings	534	572	(38)
Fines and Forfeitures	14,148	6,476	7,672
All Other Revenue	11,835	56,097	(44,262)
Total	\$1,426,797	\$1,507,140	(\$80,343)

General Fund revenues decreased \$80,343, or approximately 5% from the prior year. A decrease in ambulance runs resulted in the decrease in charges for services. A decrease in local government funding contributed to the decrease in intergovernmental revenues.

	2012 Expenditures	2011 Expenditures	Increase (Decrease)
Security of Persons and Property	\$875,188	\$884,720	(\$9,532)
Public Health and Welfare	0	13,488	(13,488)
General Government	449,269	453,441	(4,172)
Debt Service:			
Principal Retirement	11,758	11,611	147
Interest and Fiscal Charges	2,437	2,585	(148)
Total	\$1,338,652	\$1,365,845	(\$27,193)

General Fund expenditures in 2012 decreased \$27,193 or 2% from 2011.

Fire Capital Replacement Fund – The Village’s Fire Capital Replacement Fund reported a significant decrease in fund balance due to the purchase of a ladder truck.

Capital Improvement Fund - The Capital Improvement Fund balance changed less than 1% to a deficit fund balance of \$2,119,804. An interfund loan payable to the General Fund is the primary factor contributing to this fund’s large negative fund balance.

Street Levy Capital Replacement Fund - The Street Levy Capital Replacement Fund reported a decrease in fund balance of \$13,812. Revenues remained consistent with the prior year, while expenditures increased due to the cost of resurfacing various streets.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2012***

Unaudited

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

During the course of fiscal year 2012 the Village amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,428,548 was not significantly different from original or final budget estimates. Budget basis expenditures of \$1,349,436 were 2% lower than original and final budget estimates due to an overall controlling of costs. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012 the Village had \$15,691,544 net of accumulated depreciation invested in land, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$6,029,184 was related to governmental activities and \$9,662,360 to the business-type activities. The following table shows fiscal years 2012 and 2011 balances:

	Governmental Activities		Increase (Decrease)
	2012	2011	
Land	\$266,674	\$266,674	\$0
Construction In Progress	0	719,577	(719,577)
Buildings	978,454	978,454	0
Improvements Other than Buildings	179,995	179,995	0
Machinery and Equipment	2,999,481	2,649,573	349,908
Infrastructure	4,754,962	3,534,630	1,220,332
Less: Accumulated Depreciation	(3,150,382)	(2,883,041)	(267,341)
Totals	<u>\$6,029,184</u>	<u>\$5,445,862</u>	<u>\$583,322</u>

Roadway improvements on Brookdale Avenue, Martin Street and Pleasant Drive resulted in the increase in infrastructure.

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2012	2011	
Land	\$177,511	\$177,511	\$0
Construction in Progress	622,173	520,625	101,548
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	935,857	452,160	483,697
Machinery and Equipment	1,381,895	1,375,750	6,145
Infrastructure	11,167,067	11,167,067	0
Less: Accumulated Depreciation	(6,595,350)	(6,270,772)	(324,578)
Totals	\$9,662,360	\$9,395,548	\$266,812

A water booster project as well as a reservoir improvement project resulted in the increase in construction in progress and improvements. Additional information on the Village's capital assets can be found in Note 10.

Debt

At December 31, 2012, the Village had \$2,815,000 in general obligation bonds outstanding, \$225,000 due within one year. The following table summarizes the Village's long-term obligations as of December 31, 2012 and 2011:

	2012	2011
Governmental Activities:		
Ohio Public Works Commission Loans	\$257,858	\$265,858
ODOT Street Improvement Loan	279,287	366,974
Ohio Department of Commerce Loan	126,750	0
Long Term Promissory Notes	433,694	383,151
Compensated Absences	153,309	155,517
Total Governmental Activities	1,250,898	1,171,500
Business-Type Activities:		
General Obligation Bonds	2,815,000	3,040,000
Ohio Public Works Commission Loans	910,454	701,182
Ohio Water Development Authority Loans	2,867,467	2,816,461
Capital Leases	51,480	67,492
Compensated Absences	82,714	152,688
Total Business-Type Activities	6,727,115	6,777,823
Totals	\$7,978,013	\$7,949,323

Under current state statutes, the Village's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2012, the Village's outstanding debt was below the legal limit. Additional information on the Village's long-term debt can be found in Note 13.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2012***

Unaudited

ECONOMIC FACTORS

At one time, the Village of East Palestine was known for its pottery production with the potteries being the largest employers in the Village. Currently the Village has only one pottery left. The Village has five industrial plants with the remaining businesses being mainly sole-proprietor businesses.

The residents of East Palestine passed a 5 mill street levy in 2010; with collections starting in 2011 and estimated collections of \$296,100. In 2011 and 2012 we repaved East and West Martin St., Brookdale, E. & W. Main St., S. Market St., Bacon Ave, Alice St, Wood St., Garfield, Forbes, Moore Lane, and Park Dr.

In 2013 street paving projects will be E & W. Clark St, Kenmar, Pinetree Circle, W. Grant St. Ext., Sunset Blvd, Grandview Ave, Neely Manor, W. North Ave. Ext, Evergreen and Edgewood. We are continuing to look at future paving projects in 2014 and 2015 using the Street Levy money.

In 2013 we are installing a new reservoir at Wheathill Rd, project cost is \$478,669.

The Village's 2013 budget is very conservative.

The school district is the Village's largest withholding employer of Village Income Tax.

REQUESTS FOR INFORMATION

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

VILLAGE OF EAST PALESTINE, OHIO

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VILLAGE OF EAST PALESTINE, OHIO

Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 491,664	\$ 601,798	\$ 1,093,462
Investments	133,107	0	133,107
Receivables:			
Taxes	1,032,964	0	1,032,964
Accounts	71,802	224,596	296,398
Intergovernmental	226,599	0	226,599
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	8,011	38,995	47,006
Prepaid Items	22,245	8,634	30,879
Non-Depreciable Capital Assets	266,674	799,684	1,066,358
Depreciable Capital Assets, Net	5,762,510	8,862,676	14,625,186
Total Assets	8,050,576	10,501,383	18,551,959
Liabilities:			
Accounts Payable	26,520	18,473	44,993
Accrued Wages and Benefits	67,149	21,009	88,158
Intergovernmental Payable	3,019	0	3,019
Accrued Interest Payable	16,747	19,220	35,967
Noncurrent liabilities:			
Due within one year	261,055	496,174	757,229
Due in more than one year	989,843	6,230,941	7,220,784
Total Liabilities	1,364,333	6,785,817	8,150,150
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	635,546	0	635,546
Net Position:			
Net Investment in Capital Assets	4,931,595	3,017,959	7,949,554
Restricted For:			
Capital Projects	235,832	0	235,832
Other Purposes	390,433	0	390,433
Unrestricted	492,837	697,607	1,190,444
Total Net Position	\$ 6,050,697	\$ 3,715,566	\$ 9,766,263

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Activities
For the Year Ended December 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,129,729	\$ 185,922	\$ 18,876	\$ 0
Leisure Time Activities	261,140	89,867	6,412	0
Community Environment	170,434	0	261,867	0
Public Health and Welfare	32,446	25,093	0	0
Transportation	424,778	0	279,970	268,386
General Government	594,162	71,605	0	0
Interest and Fiscal Charges	31,009	0	0	0
Total Governmental Activities	2,643,698	372,487	567,125	268,386
Business-Type Activities:				
Water	457,709	632,712	0	55,536
Wastewater	879,266	1,200,769	0	0
Total Business-Type Activities	1,336,975	1,833,481	0	55,536
Totals	\$ 3,980,673	\$ 2,205,968	\$ 567,125	\$ 323,922

General Revenues

Property Taxes Levied for:
 General Purposes
 Special Purposes
 Income Tax
 Other Local Taxes
 Intergovernmental Revenues, Unrestricted
 Investment Earnings
 Miscellaneous
 Total General Revenues

Change in Net Position

Net Position Beginning of Year
 Net Position End of Year

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (924,931)	\$ 0	\$ (924,931)
(164,861)	0	(164,861)
91,433	0	91,433
(7,353)	0	(7,353)
123,578	0	123,578
(522,557)	0	(522,557)
(31,009)	0	(31,009)
<u>(1,435,700)</u>	<u>0</u>	<u>(1,435,700)</u>
0	230,539	230,539
0	321,503	321,503
<u>0</u>	<u>552,042</u>	<u>552,042</u>
\$ (1,435,700)	\$ 552,042	\$ (883,658)
112,688	0	112,688
561,626	0	561,626
962,323	0	962,323
487	0	487
172,207	0	172,207
632	0	632
23,879	0	23,879
<u>1,833,842</u>	<u>0</u>	<u>1,833,842</u>
398,142	552,042	950,184
5,652,555	3,163,524	8,816,079
<u>\$ 6,050,697</u>	<u>\$ 3,715,566</u>	<u>\$ 9,766,263</u>

VILLAGE OF EAST PALESTINE, OHIO

Balance Sheet
Governmental Funds
December 31, 2012

	General	Fire Capital Replacement	Capital Improvement
Assets:			
Cash and Cash Equivalents	\$ 114,499	\$ 4,418	\$ 19,332
Investments	100,591	0	0
Receivables:			
Taxes	400,773	78,894	0
Accounts	71,727	0	0
Intergovernmental	36,977	5,854	0
Interfund Loans Receivable	2,174,136	0	0
Inventory of Supplies	0	0	0
Prepaid Items	21,417	0	0
Total Assets	\$ 2,920,120	\$ 89,166	\$ 19,332
Liabilities:			
Accounts Payable	\$ 12,748	\$ 0	\$ 0
Accrued Wages and Benefits Payable	51,183	0	0
Intergovernmental Payable	3,019	0	0
Interfund Loans Payable	0	0	2,139,136
Total Liabilities	66,950	0	2,139,136
Deferred Inflows of Resources:			
Unavailable Amounts	118,171	18,556	0
Property Tax Levy for Next Fiscal Year	104,794	66,192	0
Total Deferred Inflows of Resources	222,965	84,748	0
Fund Balance:			
Nonspendable	2,195,553	0	0
Restricted	0	4,418	0
Assigned	99,155	0	0
Unassigned	335,497	0	(2,119,804)
Total Fund Balance	2,630,205	4,418	(2,119,804)
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 2,920,120	\$ 89,166	\$ 19,332

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Street Levy Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 83,975	\$ 269,440	\$ 491,664
0	32,516	133,107
294,901	258,396	1,032,964
0	75	71,802
23,486	160,282	226,599
0	0	2,174,136
0	8,011	8,011
0	828	22,245
<u>\$ 402,362</u>	<u>\$ 729,548</u>	<u>\$ 4,160,528</u>
\$ 0	\$ 13,772	\$ 26,520
0	15,966	67,149
0	0	3,019
0	0	2,139,136
<u>0</u>	<u>29,738</u>	<u>2,235,824</u>
70,259	143,281	350,267
248,128	216,432	635,546
<u>318,387</u>	<u>359,713</u>	<u>985,813</u>
0	8,839	2,204,392
83,975	331,258	419,651
0	0	99,155
0	0	(1,784,307)
<u>83,975</u>	<u>340,097</u>	<u>938,891</u>
<u>\$ 402,362</u>	<u>\$ 729,548</u>	<u>\$ 4,160,528</u>

VILLAGE OF EAST PALESTINE, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2012***

Total Governmental Fund Balances	\$	938,891
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		6,029,184
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		350,267
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(153,309)	
Ohio Public Works Commission Loans Payable	(257,858)	
Ohio Department of Transportation Loan Payable	(279,287)	
Ohio Department of Commerce Loan Payable	(126,750)	
Long Term Promissory Notes	(433,694)	
Accrued Interest Payable	(16,747)	(1,267,645)
		<u>6,050,697</u>
<i>Net Position of Governmental Activities</i>	\$	<u>6,050,697</u>
See accompanying notes to the basic financial statements		

VILLAGE OF EAST PALESTINE, OHIO

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VILLAGE OF EAST PALESTINE, OHIO

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

	General	Fire Capital Replacement	Capital Improvement
Revenues:			
Taxes	\$ 1,071,056	\$ 68,977	\$ 0
Intergovernmental Revenues	86,300	11,744	0
Charges for Services	171,319	0	0
Licenses and Permits	71,605	0	0
Investment Earnings	534	0	0
Fines and Forfeitures	14,148	0	0
All Other Revenue	11,835	0	0
Total Revenue	1,426,797	80,721	0
Expenditures:			
Current:			
Security of Persons and Property	875,188	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
General Government	449,269	0	0
Capital Outlay	0	358,292	3,328
Debt Service:			
Principal Retirement	11,758	132,350	59,946
Interest & Fiscal Charges	2,437	660	24,229
Total Expenditures	1,338,652	491,302	87,503
Excess (Deficiency) of Revenues Over (Under) Expenditures	88,145	(410,581)	(87,503)
Other Financing Sources (Uses):			
Sale of Capital Assets	0	0	0
Note/Loan Proceeds	0	259,100	0
Transfers In	0	0	95,943
Transfers Out	(103,943)	0	0
Total Other Financing Sources (Uses)	(103,943)	259,100	95,943
Net Change in Fund Balance	(15,798)	(151,481)	8,440
Fund Balance at Beginning of Year	2,646,003	155,899	(2,128,244)
Decrease in Inventory	0	0	0
Fund Balance End of Year	\$ 2,630,205	\$ 4,418	\$ (2,119,804)

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Street Levy Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 259,857	\$ 226,231	\$ 1,626,121
315,358	617,695	1,031,097
0	114,960	286,279
0	0	71,605
0	98	632
0	455	14,603
4,475	7,569	23,879
<u>579,690</u>	<u>967,008</u>	<u>3,054,216</u>
0	131,002	1,006,190
0	226,004	226,004
0	170,434	170,434
0	32,446	32,446
0	229,956	229,956
0	0	449,269
701,652	14,380	1,077,652
0	81,590	285,644
0	3,555	30,881
<u>701,652</u>	<u>889,367</u>	<u>3,508,476</u>
(121,962)	77,641	(454,260)
0	1,100	1,100
108,150	0	367,250
0	8,000	103,943
0	0	(103,943)
<u>108,150</u>	<u>9,100</u>	<u>368,350</u>
(13,812)	86,741	(85,910)
97,787	260,724	1,032,169
0	(7,368)	(7,368)
<u>\$ 83,975</u>	<u>\$ 340,097</u>	<u>\$ 938,891</u>

VILLAGE OF EAST PALESTINE, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2012***

Net Change in Fund Balances - Total Governmental Funds \$ (85,910)

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

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

Capital Outlay	881,613	
Depreciation Expense	(295,196)	586,417

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	(3,095)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(12,376)
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The issuance of long-term debt (e.g. notes, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net position.

Ohio Department of Commerce Loan	(130,000)	
Long Term Promissory Note	(237,250)	(367,250)

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

Ohio Public Works Commission Loan Retirement	8,000	
Ohio Department of Transportation Loan Retirement	87,687	
Ohio Department of Commerce Loan Retirement	3,250	
Long Term Promissory Note Retirement	186,707	285,644

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	(128)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	2,208	
Change in Inventory	(7,368)	(5,160)

<i>Change in Net Position of Governmental Activities</i>	\$ 398,142
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See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 988,412	\$ 1,034,696	\$ 1,069,116	\$ 34,420
Intergovernmental Revenues	75,065	78,580	92,442	13,862
Charges for Services	221,078	231,430	171,319	(60,111)
Licenses and Permits	64,958	68,000	70,954	2,954
Investment Earnings	478	500	534	34
Fines and Forfeitures	5,732	6,000	13,170	7,170
All Other Revenues	14,807	15,500	11,013	(4,487)
Total Revenues	<u>1,370,530</u>	<u>1,434,706</u>	<u>1,428,548</u>	<u>(6,158)</u>
Expenditures:				
Current:				
Security of Persons and Property	908,665	907,089	883,921	23,168
General Government	452,415	451,629	451,320	309
Debt Service:				
Principal Retirement	11,778	11,758	11,758	0
Interest and Fiscal Charges	2,442	2,438	2,437	1
Total Expenditures	<u>1,375,300</u>	<u>1,372,914</u>	<u>1,349,436</u>	<u>23,478</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(4,770)	61,792	79,112	17,320
Other Financing Sources (Uses):				
Transfers Out	(114,609)	(114,609)	(114,609)	0
Total Other Financing Sources (Uses):	<u>(114,609)</u>	<u>(114,609)</u>	<u>(114,609)</u>	<u>0</u>
Net Change in Fund Balance	(119,379)	(52,817)	(35,497)	17,320
Fund Balance at Beginning of Year	212,408	212,408	212,408	0
Prior Year Encumbrances	5,909	5,909	5,909	0
Fund Balance at End of Year	<u>\$ 98,938</u>	<u>\$ 165,500</u>	<u>\$ 182,820</u>	<u>\$ 17,320</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2012**

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Wastewater	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 338,646	\$ 263,152	\$ 601,798
Receivables:			
Accounts	74,737	149,859	224,596
Inventory of Supplies at Cost	34,109	4,886	38,995
Prepaid Items	3,339	5,295	8,634
Total Current Assets	450,831	423,192	874,023
Noncurrent Assets:			
Capital Assets, Net	2,636,645	7,025,715	9,662,360
Total Assets	3,087,476	7,448,907	10,536,383
LIABILITIES			
Current Liabilities:			
Accounts Payable	7,173	11,300	18,473
Accrued Wages and Benefits	7,453	13,556	21,009
Compensated Absences Payable - Current	6,267	10,758	17,025
Accrued Interest Payable	2,004	17,216	19,220
Capital Leases Payable - Current	8,287	8,287	16,574
General Obligation Bonds Payable - Current	22,500	202,500	225,000
OWDA Loans Payable - Current	1,864	184,583	186,447
OPWC Loans Payable - Current	15,934	35,194	51,128
Total Current Liabilities	71,482	483,394	554,876
Noncurrent Liabilities:			
Capital Leases Payable	17,453	17,453	34,906
General Obligation Bonds Payable	125,250	2,464,750	2,590,000
OWDA Loans Payable	643,220	2,037,800	2,681,020
OPWC Loans Payable	325,695	533,631	859,326
Interfund Loan Payable	10,000	25,000	35,000
Compensated Absences Payable	26,432	39,257	65,689
Total Noncurrent Liabilities	1,148,050	5,117,891	6,265,941
Total Liabilities	1,219,532	5,601,285	6,820,817
NET POSITION			
Net Investment in Capital Assets	1,476,442	1,541,517	3,017,959
Unrestricted	391,502	306,105	697,607
Total Net Position	\$ 1,867,944	\$ 1,847,622	\$ 3,715,566

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

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

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
Operating Revenues:			
Charges for Services	\$ 602,954	\$ 1,197,263	\$ 1,800,217
Total Operating Revenues	602,954	1,197,263	1,800,217
Operating Expenses:			
Personal Services	217,468	319,038	536,506
Contractual Services	113,015	148,510	261,525
Materials and Supplies	24,850	34,218	59,068
Depreciation	86,412	238,166	324,578
Total Operating Expenses	441,745	739,932	1,181,677
Operating Income	161,209	457,331	618,540
Non-Operating Revenue (Expenses):			
Interest and Fiscal Charges	(15,821)	(139,148)	(154,969)
Other Nonoperating Revenue	29,758	3,506	33,264
Other Nonoperating Expense	(143)	(186)	(329)
Total Non-Operating Revenues (Expenses)	13,794	(135,828)	(122,034)
Income Before Contributions	175,003	321,503	496,506
Contributions:			
Capital Contributions	55,536	0	55,536
Total Contributions	55,536	0	55,536
Change in Net Position	230,539	321,503	552,042
Net Position Beginning of Year	1,637,405	1,526,119	3,163,524
Net Position End of Year	\$ 1,867,944	\$ 1,847,622	\$ 3,715,566

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2012

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$630,872	\$1,196,393	\$1,827,265
Cash Payments for Goods and Services	(168,805)	(181,780)	(350,585)
Cash Payments to Employees	(250,159)	(355,784)	(605,943)
Net Cash Provided by Operating Activities	211,908	658,829	870,737
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(666,002)	(14,683)	(680,685)
Capital Contributions	120,565	0	120,565
Principal Paid on Ohio Water Development Authority Loan	(119,365)	(181,528)	(300,893)
Proceeds from Ohio Water Development Authority Loan	351,899	0	351,899
Principal Paid on General Obligation Bond	(22,500)	(202,500)	(225,000)
Principal Paid on Ohio Public Works Commission Loan	(3,534)	(35,194)	(38,728)
Proceeds from Ohio Public Works Commission Loan	248,000	0	248,000
Interest Paid on All Debt	(17,346)	(140,438)	(157,784)
Net Cash Used by Capital and Related Financing Activities	(108,283)	(574,343)	(682,626)
Increase in Cash and Cash Equivalents	103,625	84,486	188,111
Cash and Cash Equivalents at Beginning of Year	235,021	178,666	413,687
Cash and Cash Equivalents at End of Year	\$338,646	\$263,152	\$601,798
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income	\$161,209	\$457,331	\$618,540
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	86,412	238,166	324,578
Miscellaneous Nonoperating Revenue	29,776	3,524	33,300
Miscellaneous Nonoperating Expense	(143)	(186)	(329)
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(1,858)	(4,394)	(6,252)
Increase in Inventory	(31,551)	(278)	(31,829)
(Increase) Decrease in Prepaid Items	184	(161)	23
Increase in Accounts Payable	570	1,573	2,143
Increase (Decrease) in Accrued Wages and Benefits	668	(131)	537
Decrease in Compensated Absences	(33,359)	(36,615)	(69,974)
Total Adjustments	50,699	201,498	252,197
Net Cash Provided by Operating Activities	\$211,908	\$658,829	\$870,737

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of East Palestine, Ohio (the "Village") is a home rule municipal corporation created under the laws of the State of Ohio. East Palestine was first incorporated as a village on February 27, 1876. The Village currently operates under and is governed by its own Charter. The current Charter, which provides for a Council-Village Manager form of government, was adopted in 1990.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* as amended by GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"* and GASB Statement No. 61, *"The Financial Reporting Entity; Omnibus"* in that the financial statements include all organizations, activities, functions and component units for which the Village (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the Village's ability to impose its will over the organization, or the possibility that the organization will provide a financial benefit to or impose a financial burden on the Village. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the Village's reporting entity. Based on the foregoing, the reporting entity of the Village includes the following services: police and fire protection, emergency medical, parks, recreation, planning, zoning, street maintenance and other governmental services. In addition, the Village owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

The accounting policies and financial reporting practices of the Village conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the Village:

Governmental Funds - The governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the Village's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the Village's major governmental funds:

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

General Fund - This fund is used to account for all financial resources except those resources accounted for in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio and the provisions of the Village Charter.

Fire Capital Replacement Fund - This fund is used to account for property taxes levied for capital purchases for the Fire Department.

Capital Improvement Fund - This fund is used to account for the financial resources used for the major capital projects undertaken by the Village other than those accounted for in the Water and Wastewater funds.

Street Levy Capital Replacement Fund - This fund is used to account for property taxes levied for Village street and infrastructure improvements.

Proprietary Funds - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities, and deferred outflows/inflows of resources associated with the operation of the proprietary funds are included on the statement of net position. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Village's major enterprise funds are:

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

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

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the Village 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 Village that are governmental and those that are considered business-type activities.

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

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

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the Village is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

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

Revenues considered susceptible to accrual at year end include income taxes, interest on investments, special assessments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

Property taxes measurable as of December 31, 2012 but which are not intended to finance 2012 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources as further described in Note 6.

The accrual basis of accounting is utilized for reporting purposes by the government-wide statements, proprietary funds and agency funds. Revenues are recognized when earned and expenses are recognized when they are incurred.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the Village Council.

1. Tax Budget

By July 15, the Village Manager submits an annual tax budget for the following fiscal year to Village Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the Village by September 1 of each year. As part of the certification process, the Village receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2012.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Village Council. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

5. Budgetary Basis of Accounting

The Village's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

<u>Net Change in Fund Balances</u>	
	<u>General Fund</u>
GAAP Basis (as reported)	(\$15,798)
Increase (Decrease):	
Accrued Revenues at December 31, 2012 received during 2013	(286,512)
Accrued Revenues at December 31, 2011 received during 2012	288,263
Accrued Expenditures at December 31, 2012 paid during 2013	66,950
Accrued Expenditures at December 31, 2011 paid during 2012	(75,224)
2011 Prepays for 2012	20,130
2012 Prepays for 2013	(21,417)
Outstanding Encumbrances	(1,222)
Perspective Difference:	
Activity of Funds Reclassified for GAAP Reporting Purposes	<u>(10,667)</u>
Budget Basis	<u><u>(\$35,497)</u></u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because of its highly liquid nature.

The Village pools a majority of its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' shares of equity in pooled repurchase agreements and certificates of deposit are considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the Village reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost.

The Village has invested funds in the STAR Ohio during 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2012. See Note 5, "Cash, Cash Equivalents and Investments."

H. Inventory

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

I. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

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

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

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

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

3. Depreciation

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

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

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loans	Water Fund, Wastewater Fund
General Obligation Bonds	Water Fund, Wastewater Fund
Ohio Public Works Commission Loan	Capital Improvement Fund, Water Fund, Wastewater Fund
Compensated Absences	General Fund, Parks and Recreation Fund Street Construction, Maintenance and Repair Fund, Water Fund, Wastewater Fund
Ohio Department of Transportation Loan	General Fund, Capital Improvement Fund, Street Construction, Maintenance and Repair Fund
Ohio Department of Commerce Loan	Fire Capital Replacement Fund
Long Term Promissory Notes	General Fund, Parks and Recreation Fund, Capital Improvement Fund, Police Levy, Capital Replacement Fund
Capital Leases	Water Fund, Wastewater Fund

K. Compensated Absences

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

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

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

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

L. Net Position

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. 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 use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Pensions

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

N. Interfund Activity

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Village is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

Restricted – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Village to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village's highest level of decision making authority. For the Village, these constraints consist of ordinances passed by Village Council. Committed amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts. The Village has no fund balances reported as committed at December 31, 2012.

Assigned – Assigned fund balance consists of amounts that are constrained by the Village's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Operating Revenues and Expenses

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Village and that are either unusual in nature or infrequent in occurrence. The Village had no extraordinary or special items to report during fiscal year 2012.

R. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Village reports no deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

For 2012 the Village implemented GASB Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*,” GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”.

Statement No. 62 incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

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 disclosures. GASB 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing 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 these GASB Statements had no impact on beginning of year fund balance/net position.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficit at December 31, 2012 of \$2,119,804 in the Capital Improvement Fund (capital projects fund) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The general fund provides transfers when cash is required, not when accruals occur.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 4 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	Fire Capital Replacement Fund	Capital Improvement Fund	Street Levy Capital Replacement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid Items	\$21,417	\$0	\$0	\$0	\$828	\$22,245
Supplies Inventory	0	0	0	0	8,011	8,011
Interfund Loans Receivable	2,174,136	0	0	0	0	2,174,136
Total Nonspendable	<u>2,195,553</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,839</u>	<u>2,204,392</u>
Restricted:						
Fire Capital Improvements	0	4,418	0	0	0	4,418
Police Capital Improvements	0	0	0	0	31,423	31,423
Street Capital Improvements	0	0	0	83,975	0	83,975
Community Development and Improvement	0	0	0	0	126,296	126,296
Street Maintenance and Repair	0	0	0	0	105,649	105,649
Fire Protection	0	0	0	0	1,749	1,749
EMS Training	0	0	0	0	8,447	8,447
Parks and Recreation	0	0	0	0	589	589
Cemetery Maintenance	0	0	0	0	33,662	33,662
Law Enforcement	0	0	0	0	23,443	23,443
Total Restricted	<u>0</u>	<u>4,418</u>	<u>0</u>	<u>83,975</u>	<u>331,258</u>	<u>419,651</u>
Assigned:						
Other Purposes	99,155	0	0	0	0	99,155
Total Assigned	<u>99,155</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>99,155</u>
Unassigned (Deficits):	335,497	0	(2,119,804)	0	0	(1,784,307)
Total Fund Balances	<u>\$2,630,205</u>	<u>\$4,418</u>	<u>(\$2,119,804)</u>	<u>\$83,975</u>	<u>\$340,097</u>	<u>\$938,891</u>

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the Village into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the Village. Such funds must be maintained either as cash in the Village Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of Village cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Village places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the Village's deposits was \$1,155,437 and the bank balance was \$1,178,764. Federal depository insurance covered \$1,125,294 of the bank balance and \$53,470 was uninsured. Of the remaining uninsured bank balance, the Village was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Village's name	\$53,470
Total Balance	\$53,470

Investment earnings of \$452 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The Village's investments at December 31, 2012 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>
STAR Ohio	\$71,132	AAAm ¹	\$71,132	\$0	\$0
Total Investments	\$71,132		\$71,132	\$0	\$0

¹ Standard & Poor's

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

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio and certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$1,093,462	\$133,107
Certificates of Deposit (with maturities of more than 3 months)	133,107	(133,107)
Investments:		
STAR Ohio	<u>(71,132)</u>	<u>71,132</u>
Per GASB Statement No. 3	<u>\$1,155,437</u>	<u>\$71,132</u>

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property and located in the Village. Real property taxes (other than public utility) collected during 2012 were levied after October 1, 2011 on assessed values as of January 1, 2011, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 2010. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 6 - TAXES (Continued)

A. Property Taxes (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the Village of East Palestine. The County Auditor periodically remits to the Village its portion of the taxes collected.

The full property tax rate for all Village operations for the year ended December 31, 2012 was \$13.90 per \$1,000 of assessed value. The assessed value upon which the 2012 tax levy was based was \$62,080,810. This amount constitutes \$59,245,940 in real property assessed value and \$2,834,870 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the Village's share is 1.39% (13.90 mills) of assessed value.

B. Income Taxes

The Village levies a tax of 1.0% on all salaries, wages, commissions and other compensation, on net profits earned within the Village and on incomes of residents earned outside the Village. Employers within the Village are required to withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2012 consisted of taxes, accounts receivable, interfund loans receivable and intergovernmental receivables.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2012:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$0	\$103,943
Capital Improvement Fund	95,943	0
Other Governmental Funds	8,000	0
Totals	<u>\$103,943</u>	<u>\$103,943</u>

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2012:

<u>Fund</u>	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
Governmental Funds:		
General Fund	\$2,174,136	\$0
Capital Improvement Fund	0	2,139,136
Total Governmental Funds	<u>2,174,136</u>	<u>2,139,136</u>
Proprietary Funds:		
Water Fund	0	10,000
Wastewater Fund	0	25,000
Total Proprietary Funds	<u>0</u>	<u>35,000</u>
Totals	<u>\$2,174,136</u>	<u>\$2,174,136</u>

These interfund loans are the result of advances made to the Capital Improvement Fund, Water Fund, and Wastewater Fund from the General Fund for various capital improvements. The loans were initially made during the period from 1996 to 2006. In 2013 the City passed an ordinance to suspend repayments of the interfund loans through December 31, 2015.

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VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 10 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2012:

Historical Cost:

Class	December 31, 2011	Additions	Deletions	December 31, 2012
Capital assets not being depreciated:				
Land	\$266,674	\$0	\$0	\$266,674
Construction in Progress	719,577	0	(719,577)	0
Subtotal	<u>986,251</u>	<u>0</u>	<u>(719,577)</u>	<u>266,674</u>
Capital assets being depreciated:				
Buildings	978,454	0	0	978,454
Improvements Other than Buildings	179,995	0	0	179,995
Machinery and Equipment	2,649,573	380,858	(30,950)	2,999,481
Infrastructure	3,534,630	1,220,332	0	4,754,962
Subtotal	<u>7,342,652</u>	<u>1,601,190</u>	<u>(30,950)</u>	<u>8,912,892</u>
Total Cost	<u><u>\$8,328,903</u></u>	<u><u>\$1,601,190</u></u>	<u><u>(\$750,527)</u></u>	<u><u>\$9,179,566</u></u>
Accumulated Depreciation:				
Class	December 31, 2011	Additions	Deletions	December 31, 2012
Buildings	(\$401,070)	(\$21,258)	\$0	(\$422,328)
Improvements Other than Buildings	(67,787)	(8,101)	0	(75,888)
Machinery and Equipment	(1,934,366)	(135,808)	27,855	(2,042,319)
Infrastructure	(479,818)	(130,029)	0	(609,847)
Total Depreciation	<u>(\$2,883,041)</u>	<u>(\$295,196) *</u>	<u>\$27,855</u>	<u>(\$3,150,382)</u>
Net Value:	<u><u>\$5,445,862</u></u>			<u><u>\$6,029,184</u></u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$120,360
Leisure Time Activities	34,663
Transportation	131,868
General Government	8,305
Total Depreciation Expense	<u><u>\$295,196</u></u>

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 10 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2012:

Historical Cost:

Class	December 31, 2011	Additions	Deletions	December 31, 2012
<i>Capital assets not being depreciated:</i>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	520,625	585,245	(483,697)	622,173
Subtotal	<u>698,136</u>	<u>585,245</u>	<u>(483,697)</u>	<u>799,684</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	452,160	483,697	0	935,857
Machinery and Equipment	1,375,750	6,145	0	1,381,895
Infrastructure	11,167,067	0	0	11,167,067
Subtotal	<u>14,968,184</u>	<u>489,842</u>	<u>0</u>	<u>15,458,026</u>
Total Cost	<u><u>\$15,666,320</u></u>	<u><u>\$1,075,087</u></u>	<u><u>(\$483,697)</u></u>	<u><u>\$16,257,710</u></u>

Accumulated Depreciation:

Class	December 31, 2011	Additions	Deletions	December 31, 2012
Buildings	(\$1,380,397)	(\$49,330)	\$0	(\$1,429,727)
Improvements Other than Buildings	(297,684)	(13,718)	0	(311,402)
Machinery and Equipment	(1,269,838)	(18,606)	0	(1,288,444)
Infrastructure	(3,322,853)	(242,924)	0	(3,565,777)
Total Depreciation	<u>(\$6,270,772)</u>	<u>(\$324,578)</u>	<u>\$0</u>	<u>(\$6,595,350)</u>
<i>Net Value:</i>	<u><u>\$9,395,548</u></u>			<u><u>\$9,662,360</u></u>

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 11 – DEFINED BENEFIT PENSION PLANS

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

A. Ohio Public Employees Retirement System ("OPERS")

The following information was provided by OPERS to assist the Village in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The ORC provides statutory authority for employee and employer contributions. For 2012, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2012 employer contribution rate for local government employer units was 14.00%, of covered payroll which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the Village's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional Plan was 10.0% for calendar year 2012. The portion of employer contributions allocated to pension obligations for members in the Combined Plan was 7.95% for calendar year 2012. The contribution requirements of plan members and the Village are established and may be amended by the OPERS Board. The Village's contributions for pension obligations to OPERS for the years ending December 31, 2012, 2011, and 2010 were \$91,701, \$92,446 and \$83,671, respectively, which were equal to the required contributions for each year. Contributions to the member-directed plan for 2012 were \$2,184 made by the Village and \$1,560 made by the plan members.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

All Village full-time police officers and full-time firefighters participate in 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. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the Village’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2012, 12.75% of annual covered salary for police and 17.25% of annual covered salary for firefighters, respectively, were the portions used to fund pension obligations. The Village's contributions for pension obligations to the OP&F Fund for the years ending December 31, 2012, 2011, and 2010 were \$35,566, \$38,081 and \$37,001 for police and \$9,375, \$9,189 and \$9,124 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (“OPERS”)

Plan Description – 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, which includes a medical plan, prescription drug program and Medicare Part B Premium reimbursement, to qualifying member 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.

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 health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (“OPERS”) (Continued)

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% for calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for calendar year 2012. 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.

The Village's contributions for health care to the OPERS for the years ending December 31, 2012, 2011, and 2010 were \$36,680, \$36,979 and \$47,700, respectively, which were equal to the required contributions for each year.

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.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund ("OP&F") (Continued)

Plan Description – The Village contributes to the OP&F sponsored health care program, a cost-sharing multiple-employer defined postemployment 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 is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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 2012, the employer contribution allocated to the health care plan was 6.75% 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 Village's contributions for health care to the OP&F for the years ending December 31, 2012, 2011, and 2010 were \$18,829, \$20,161 and \$19,589 for police and \$3,668, \$3,596 and \$3,570 for firefighters, respectively, which were equal to the required contributions for each year.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 13 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the Village at December 31, 2012 were as follows:

			Balance December 31, 2011	Additions	Deductions	Balance December 31, 2012	Amount Due Within One Year
Governmental Activities:							
Ohio Public Works Commission Loans:							
Bridge Replacement	0.00%	2029	\$140,000	\$0	(\$8,000)	\$132,000	\$8,000
Roadway Improvements	0.00%	2027	125,858	0	0	125,858	7,866
Total OPWC Loans:			265,858	0	(8,000)	257,858	15,866
Ohio Department of Transportation Loan:							
Street Improvement	3.00%	2015	366,974	0	(87,687)	279,287	90,337
Ohio Department of Commerce Loan:							
Fire Truck	0.00%	2022	0	130,000	(3,250)	126,750	13,000
Long Term Promissory Notes:							
West Street Bridge	5.50%	2014	252,225	0	(13,258)	238,967	13,988
City Hall Building	5.50%	2013	45,577	0	(2,759)	42,818	42,818
Vehicle Purchase	3.50%	2012	30,000	0	(30,000)	0	0
Vehicle Purchase	3.35%	2016	55,349	0	(11,590)	43,759	11,984
Road Paving	2.85%	2015	0	108,150	0	108,150	34,713
Fire Truck	2.36%	2012	0	129,100	(129,100)	0	0
Total Long Term Promissory Notes			383,151	237,250	(186,707)	433,694	103,503
Compensated Absences Payable			155,517	35,895	(38,103)	153,309	38,349
Total Governmental Activities			\$1,171,500	\$403,145	(\$323,747)	\$1,250,898	\$261,055

In April 2012 the Village issued a \$129,100 promissory note to finance the acquisition of a fire pumper truck. In May 2012 the Village received a non-interest bearing loan from the Ohio Department of Commerce, Division of State Fire Marshall in the amount of \$130,000 which was used to retire the fire pumper note. The loan matures in 2022.

In 2012 the Village issued a \$108,150 promissory note for various road paving improvements. The note carries a 2.85% interest rate and matures in 2015.

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

			Balance December 31, 2011	Additions	Deductions	Balance December 31, 2012	Amount Due Within One Year
Business-Type Activities:							
General Obligation Bonds:							
Various Purpose Refunding Bond	2.0-3.25%	2018	\$1,135,000	\$0	(\$150,000)	\$985,000	\$150,000
Sewerage System Refunding Bond	2.25-5.0%	2031	1,905,000	0	(75,000)	1,830,000	75,000
Total General Obligation Bonds:			3,040,000	0	(225,000)	2,815,000	225,000
Ohio Public Works Commission Loans:							
Phase Five Sanitary Sewer	0.00%	2025	377,300	0	(26,950)	350,350	26,950
Brookdale Water	0.00%	2038	97,163	0	(3,534)	93,629	3,534
Brookdale Sewer	0.00%	2038	226,719	0	(8,244)	218,475	8,244
Water Storage Facility	0.00%	2032	0	248,000	0	248,000	12,400
Total OPWC Loans:			701,182	248,000	(38,728)	910,454	51,128
Ohio Water Development Authority Loans:							
Water Treatment Plant	7.24%	2012	41,522	0	(41,522)	0	0
Sewer Project - Phase Two	2.20%	2020	592,458	0	(64,118)	528,340	65,537
Wastewater Treatment Plant	1.00%	2025	1,709,233	0	(114,331)	1,594,902	115,477
Waterline Extension	3.95%	2038	84,253	0	(1,792)	82,461	1,864
Sewer Line Extension	3.95%	2038	56,019	0	(1,192)	54,827	1,240
Jimtown Reservoir	4.42%	2015	61,710	2,228	(3,000)	60,938	0
WWTP Phosphorous Reduction	1.00%	2030	46,201	0	(1,887)	44,314	2,329
Water Booster Station	4.14%	2032	225,065	51,560	(5,326)	271,299	0
Moore Ln & Main Street Water Line	3.80%	2018	0	28,042	0	28,042	0
Water Storage Tank Design	3.67%	2018	0	45,888	0	45,888	0
Moore Lane	2.00%	2042	0	224,181	(67,725)	156,456	0
Total OWDA Loans:			2,816,461	351,899	(300,893)	2,867,467	186,447
Capital Leases			67,492	0	(16,012)	51,480	16,574
Compensated Absences			152,688	(49,799)	(20,175)	82,714	17,025
Total Business-Type Activities			<u>\$6,777,823</u>	<u>\$550,100</u>	<u>(\$600,808)</u>	<u>\$6,727,115</u>	<u>\$496,174</u>

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

A. Ohio Water Development Authority Loans

In 1997, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 2.2% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2000 based on a loan amount of \$1,237,264 to be paid through 2020. As of December 31, 2012, the loan had an outstanding balance of \$528,340.

In 2004, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.0% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2006 based on a loan amount of \$2,371,778 to be paid through 2025. As of December 31, 2012, the loan had an outstanding balance of \$1,594,902.

In 2009, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.95% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$89,228 to be paid through 2038. As of December 31, 2012, the loan had an outstanding balance of \$82,461.

In 2009, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 3.95% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$59,327 to be paid through 2038. As of December 31, 2012, the loan had an outstanding balance of \$54,827.

In 2010, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water reservoir improvements. The interest rate on the loan is 4.42% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2012 the Village had received \$66,938. The Village began repaying the loan in 2011. As of December 31, 2012 the loan has not been finalized and there is no amortization schedule for the loan.

In 2010, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.00% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2010 based on a loan amount of \$50,036 to be paid through 2038. As of December 31, 2012, the loan had an outstanding balance of \$44,314.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

A. Ohio Water Development Authority Loans (Continued)

In 2011, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for a water booster station. The interest rate on the loan is 4.14% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2012 the Village had received \$276,625. As of December 31, 2012 the loan has not been finalized and there is no amortization schedule for the loan.

In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.80% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2012 the Village had received \$28,042. As of December 31, 2012 the loan has not been finalized and there is no amortization schedule for the loan.

In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.67% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2012 the Village had received \$45,888. As of December 31, 2012 the loan has not been finalized and there is no amortization schedule for the loan.

In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 2.00% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2012 the Village had received \$224,181. As of December 31, 2012 the loan has not been finalized and there is no amortization schedule for the loan.

B. Defeased Debt

In February 2003, the Village defeased \$2,236,000 of FHA Loans for Sewer Improvements through the issuance of \$2,235,000 of General Obligation Bonds for Sewer System Improvements. The net proceeds of the 2003 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,811,000 at December 31, 2012, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

VILLAGE OF EAST PALESTINE, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2012*

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

B. Defeased Debt (Continued)

In December 2011, the Village defeased \$1,225,000 of General Obligation Bonds dated February 1999 through the issuance of \$1,280,000 of General Obligation Bonds for Water and Sewer System Improvements. The net proceeds of the 2011 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$960,000 at December 31, 2012, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

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VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

C. Principal and Interest Requirements

A summary of the Village's future long-term debt funding requirements, including principal and interest payments as of December 31, 2012 follows:

Years	Governmental Activities							
	OPWC Loan		ODOC Loan		ODOT Loan		Promissory Notes	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$15,866	\$0	\$13,000	\$0	\$90,337	\$7,706	\$103,503	\$19,788
2014	15,866	0	13,000	0	93,068	4,975	273,073	15,342
2015	15,866	0	13,000	0	95,882	2,162	50,548	1,529
2016	15,866	0	13,000	0	0	0	6,570	64
2017	15,866	0	13,000	0	0	0	0	0
2018-2022	79,330	0	61,750	0	0	0	0	0
2023-2027	79,330	0	0	0	0	0	0	0
2028-2032	19,868	0	0	0	0	0	0	0
2033-2037	0	0	0	0	0	0	0	0
2038	0	0	0	0	0	0	0	0
Totals	\$257,858	\$0	\$126,750	\$0	\$279,287	\$14,843	\$433,694	\$36,723

Years	Business-Type Activities					
	General Obligation Bonds		OWDA Loans		OPWC Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$225,000	\$106,188	\$186,447	\$32,758	\$51,128	\$0
2014	235,000	100,000	189,202	30,001	51,128	0
2015	235,000	93,138	192,005	27,198	51,128	0
2016	250,000	86,276	194,858	24,344	51,128	0
2017	255,000	78,576	197,761	21,438	51,128	0
2018-2022	635,000	295,418	837,958	66,144	255,640	0
2023-2027	575,000	181,128	424,593	25,129	201,740	0
2028-2032	405,000	41,000	37,030	12,367	120,890	0
2033-2037	0	0	36,743	5,739	70,655	0
2038	0	0	8,247	245	5,889	0
Totals	\$2,815,000	\$981,724	\$2,304,844	\$245,363	\$910,454	\$0

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 14 - CAPITAL LEASES

The Village leases a loader under a capital lease. The original cost of the equipment and the related liability are reported on the Proprietary Fund Statement of Net Position and Government – wide Statement of Net Position.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2012:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2013	\$18,375
2014	18,375
2015	<u>18,375</u>
Minimum Lease Payments	<u>55,125</u>
Less amount representing interest at the Village's incremental borrowing rate of interest	<u>(3,645)</u>
Present value of minimum lease payments	<u><u>\$51,480</u></u>

NOTE 15 - INSURANCE AND RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Village is a participant in the Public Entities Pool of Ohio (the “PEP Pool”). The PEP Pool was established in 1987 and is administered under contract by the American Risk Pooling Consultants, Inc. (ARPCO) to provide a program of property and casualty insurance for its Member organizations throughout the State of Ohio.

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

The Village obtained insurance coverage from the Pool from 2000 to the present for losses related to general liability, public official's liability, automobile, law enforcement liability, medical malpractice liability, and employee benefits liability.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 15 - INSURANCE AND RISK MANAGEMENT (Continued)

Each participant makes an annual “contribution” to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a “surplus contribution” that is used to build the Pool’s retained earning account to fund the activities of the Pool. During 2012, the Village made contributions to the Pool totaling \$62,427.

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool’s maximum net loss on individual risks.

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

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

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

NOTE 16 - CONTINGENCIES

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

NOTE 17 - CONSTRUCTION COMMITMENTS

The Village had the following contractual commitments at December 31, 2012:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Wheathill Reservoir	\$543,150	2014
Moore Lane Waterline	87,637	2013

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 18 – SUBSEQUENT EVENTS

In April 2013 the Village issued a promissory note in the amount of \$7,450 to finance the acquisition of a mower for the cemetery department. The promissory note has an interest rate of 3.3% and matures in May 2017. In September 2013 the Village issued \$395,000 of various purpose general obligation bonds. \$158,500 of the bond proceeds will be used to finance the costs of acquiring and renovating a new municipal building and the remaining \$236,500 to pay off the remaining balance of the West Street Bridge long term promissory note. The various purpose bonds carry an interest rate of 4.75% and mature in December 2033. In September 2014 the Village entered into a \$109,000 loan for the purchase of an Osage Super Warrior Type III ambulance. This loan matures in May 2019.

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Dave Yost • Auditor of State

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

Village of East Palestine
Columbiana County
85 North Market Street
East Palestine, Ohio 44413

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County, (the "Village") as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. 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 finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Village's Response to Findings

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

January 20, 2015

**VILLAGE OF EAST PALESTINE
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

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

FINDING NUMBER 2013-001

Material Weakness – Failure to Post and Classify Transactions Correctly

Sound financial reporting is the responsibility of the Village Finance Director and Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

Auditing procedures identified various misstatements. The following reclassifications and adjustments were noted and subsequently made to the financial statements:

2013:

FUND	ACCOUNT TYPE	AMOUNT	DESCRIPTION
Reclassification			
General	Nonspendable and Unassigned Fund Balance	\$2,174,136	To reclassify the Interfund Loan as Nonspendable Fund Balance as opposed to Unassigned Fund Balance.
Adjustments			
General and Capital Improvement Capital Projects	Bond Issuance and Bond Issuance Costs	\$395,000	To adjust the financial statements for bond proceeds that were recorded in the General Fund and should have been recorded in the Capital Improvement Capital Projects Fund.
General and Capital Improvement Capital Projects	General Government, Principal Retirement and Capital Outlay	\$393,306	To adjust the financial statements for the retirement of the West Street Bridge Loan along with the acquisition of the new municipal building that were recorded in the General Fund rather than the Capital Improvement Capital Projects Fund.

2012:

FUND	ACCOUNT TYPE	AMOUNT	DESCRIPTION
Reclassification			
General	Nonspendable and Unassigned Fund Balance	\$2,174,136	To reclassify the Interfund Loan as Nonspendable Fund Balance as opposed to Unassigned Fund Balance.
Adjustment			
Street Levy Capital Replacement	Intergovernmental Revenues and Capital Outlay Expenditures	58,842	To account for an on-behalf payment made by the Ohio Department of Transportation.

**Finding Number 2013-001
(Continued)**

We recommend that all direct payments made by an agency on-behalf of the Village be posted to the Village's accounting system and the Finance Director place bond proceeds in the proper fund in accordance with Ohio Revised Code sections 5705.09 & 5705.10. In addition, the conversion firm should classify outstanding Interfund Loan Receivable balance as Nonspendable rather than Unassigned Fund Balance and record payments on outstanding loans in the proper fund.

Officials' Response

The following adjustments were made to the following funds:

Increase the General Fund balance by \$1,896
Decrease the Capital Improvement by \$1,896

The adjustments are reflected in the 2015 receipts and expenditures.



Dave Yost • Auditor of State

VILLAGE OF EAST PALESTINE

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2015**