



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 year ended December 31, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the Village adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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*, and schedules of net pension liabilities and pension contributions 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 August 30, 2016, 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

August 30, 2016

VILLAGE OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2015

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, 2015. 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 2015 are as follows:

- ❑ In total, net position increased \$1,032,272. Net position of governmental activities increased \$641,607, which represents a 12% change from 2014. Net position of business-type activities increased \$390,665 or 10% from 2014.
- ❑ General revenues accounted for \$2,072,616 in revenue or 42% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,907,345, 58% of total revenues of \$4,979,961.
- ❑ The Village had \$2,478,005 in expenses related to governmental activities; only \$1,046,996 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$2,072,616 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,727,671 in revenues and \$1,667,235 in expenditures. The general fund's fund balance decreased \$43,529 to a balance of \$2,603,281.

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, 2015*

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, 2015**

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 2015 compared to 2014.

	Governmental Activities		Business-type Activities		Total	
	2015	Restated 2014	2015	Restated 2014	2015	Restated 2014
Current and Other Assets	\$2,365,374	\$2,088,795	\$1,145,799	\$986,551	\$3,511,173	\$3,075,346
Capital Assets, Net	6,387,399	6,169,164	9,192,354	9,466,988	15,579,753	15,636,152
Total Assets	<u>8,752,773</u>	<u>8,257,959</u>	<u>10,338,153</u>	<u>10,453,539</u>	<u>19,090,926</u>	<u>18,711,498</u>
Deferred Outflows of Resources	208,453	141,571	67,935	49,897	276,388	191,468
Net Pension Liability	1,456,995	1,388,402	412,226	405,973	1,869,221	1,794,375
Other Long-term Liabilities	712,925	862,229	5,561,120	6,097,298	6,274,045	6,959,527
Other Liabilities	86,819	102,217	119,595	84,980	206,414	187,197
Total Liabilities	<u>2,256,739</u>	<u>2,352,848</u>	<u>6,092,941</u>	<u>6,588,251</u>	<u>8,349,680</u>	<u>8,941,099</u>
Deferred Inflows of Resources	656,075	639,877	7,297	0	663,372	639,877
Net Position						
Net Investment in Capital Assets	5,766,334	5,405,891	3,723,597	3,481,172	9,489,931	8,887,063
Restricted	692,547	605,208	0	0	692,547	605,208
Unrestricted	(410,469)	(604,294)	582,253	434,013	171,784	(170,281)
Total Net Position	<u>\$6,048,412</u>	<u>\$5,406,805</u>	<u>\$4,305,850</u>	<u>\$3,915,185</u>	<u>\$10,354,262</u>	<u>\$9,321,990</u>

During 2015, the Village adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Village's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

Under the new standards required by GASB 68, the net pension liability equals the Village's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Village is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Village's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Village is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014. The net pension liability reduced beginning of year net position by \$1,246,831 in governmental activities and \$356,076 in business-type activities.

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2015**

Unaudited

Changes in Net Position – The following table shows the changes in net position for 2015 compared to 2014:

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for Services and Sales	\$434,727	\$454,051	\$1,860,349	\$1,805,126	\$2,295,076	\$2,259,177
Operating Grants and Contributions	365,009	386,106	0	0	365,009	386,106
Capital Grants and Contributions	247,260	10,000	0	2,136	247,260	12,136
Total Program Revenues	<u>1,046,996</u>	<u>850,157</u>	<u>1,860,349</u>	<u>1,807,262</u>	<u>2,907,345</u>	<u>2,657,419</u>
General Revenues:						
Property Taxes	669,561	669,707	0	0	669,561	669,707
Income Taxes	1,137,118	968,925	0	0	1,137,118	968,925
Other Local Taxes	492	518	0	0	492	518
Intergovernmental Revenues, Unrestricted	170,500	172,560	0	0	170,500	172,560
Investment Earnings	2,607	2,676	0	0	2,607	2,676
Miscellaneous	92,338	61,449	0	0	92,338	61,449
Total General Revenues	<u>2,072,616</u>	<u>1,875,835</u>	<u>0</u>	<u>0</u>	<u>2,072,616</u>	<u>1,875,835</u>
Total Revenues	<u>3,119,612</u>	<u>2,725,992</u>	<u>1,860,349</u>	<u>1,807,262</u>	<u>4,979,961</u>	<u>4,533,254</u>
Program Expenses						
Security of Persons and Property	1,276,665	1,231,104	0	0	1,276,665	1,231,104
Leisure Time Activities	246,121	220,062	0	0	246,121	220,062
Community Environment	2,936	3,860	0	0	2,936	3,860
Public Health and Welfare	29,088	35,643	0	0	29,088	35,643
Transportation	440,109	428,187	0	0	440,109	428,187
General Government	461,303	572,467	0	0	461,303	572,467
Interest and Fiscal Charges	21,783	24,961	0	0	21,783	24,961
Water	0	0	558,123	612,422	558,123	612,422
Wastewater	0	0	911,561	1,003,587	911,561	1,003,587
Total Expenses	<u>2,478,005</u>	<u>2,516,284</u>	<u>1,469,684</u>	<u>1,616,009</u>	<u>3,947,689</u>	<u>4,132,293</u>
Total Change in Net Position	641,607	209,708	390,665	191,253	1,032,272	400,961
Beginning Net Position - Restated	5,406,805	N/A	3,915,185	N/A	9,321,990	N/A
Ending Net Position - Restated	<u>\$6,048,412</u>	<u>\$5,406,805</u>	<u>\$4,305,850</u>	<u>\$3,915,185</u>	<u>\$10,354,262</u>	<u>\$9,321,990</u>

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$141,571 for Governmental Activities and \$49,897 for Business-type Activities computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$151,734 for Governmental Activities and \$41,284 for Business-type Activities.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-type Activities
Total 2015 program expenses under GASB 68	\$2,478,005	\$1,469,684
Pension expense under GASB 68	(151,734)	(41,284)
2015 contractually required contribution	139,859	45,772
Adjusted 2015 program expenses	2,466,130	1,474,172
Total 2014 program expenses under GASB 27	2,516,284	1,616,009
Change in program expenses not related to pension	(\$50,154)	(\$141,837)

Governmental Activities

Net position of the Village's governmental activities increased \$641,607, or 12% from the previous year. An increase in capital grants and contributions can be attributed to a Safe Route to School grant.

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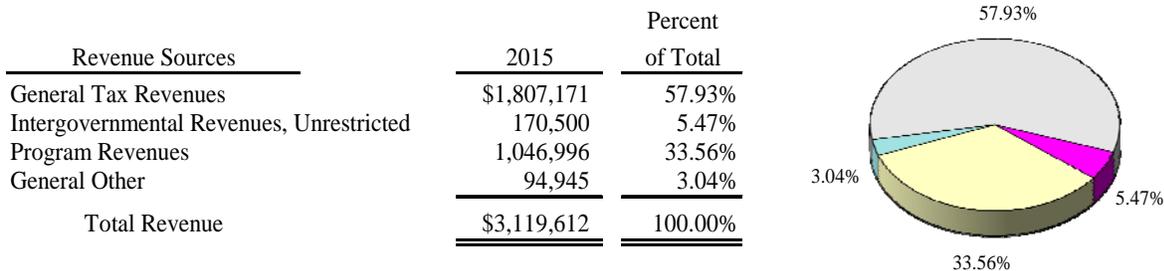
VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2015**

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 36% and 21% respectively of revenues for governmental activities for the Village in 2015. The Village's reliance upon tax revenues is demonstrated by the following graph indicating 58% of total revenues from general tax revenues:



Business-Type Activities

Net position of the business-type activities increased \$390,665. This was a 10% increase from the previous year. Revenues and expenses remained consistent with the prior year.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The Village's governmental funds reported a combined fund balance of \$997,451, which is an increase from last year's balance of \$925,776. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2015 and 2014:

	Fund Balance/Deficit December 31, 2015	Fund Balance/Deficit December 31, 2014	Increase (Decrease)
General	\$2,603,281	\$2,646,810	(\$43,529)
Street Construction, Maintenance and Repair	114,196	94,082	20,114
Capital Improvement	(2,096,689)	(2,086,250)	(10,439)
Street Levy Capital Replacement	64,904	15,408	49,496
Other Governmental	311,759	255,726	56,033
Total	\$997,451	\$925,776	\$71,675

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

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:

	2015 Revenues	2014 Revenues	Increase (Decrease)
Taxes	\$991,624	\$1,074,391	(\$82,767)
Intergovernmental Revenues	341,751	127,490	214,261
Charges for Services	228,979	183,459	45,520
Licenses and Permits	71,728	71,266	462
Investment Earnings	2,607	2,534	73
Fines and Forfeitures	12,355	16,104	(3,749)
All Other Revenue	78,627	32,999	45,628
Total	<u>\$1,727,671</u>	<u>\$1,508,243</u>	<u>\$219,428</u>

General Fund revenues increased \$219,428, or approximately 15% from the prior year. An increase in intergovernmental revenues can be attributed to a Safe Route to School grant.

	2015 Expenditures	2014 Expenditures	Increase (Decrease)
Current:			
Security of Persons and Property	\$978,542	\$914,073	\$64,469
General Government	666,378	436,321	230,057
Debt Service:			
Principal Retirement	15,000	113,749	(98,749)
Interest and Fiscal Charges	7,315	9,131	(1,816)
Total	<u>\$1,667,235</u>	<u>\$1,473,274</u>	<u>\$193,961</u>

General Fund expenditures increased \$193,961, or 13% from 2014. Expenditures for improvements related to a Safe Route to School grant resulted in the increase in general government.

Street Construction, Maintenance and Repair Fund – The Street Construction, Maintenance and Repair Fund balance increased \$20,114, or 21%, which can be attributed to a decrease in street maintenance expenditures.

Capital Improvement Fund - The Capital Improvement Fund balance changed less than 1% to a deficit fund balance of \$2,096,689. 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 an increase in fund balance of \$49,496. Revenues and expenditures were consistent with the prior year.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

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 2015 the Village amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,804,314 was not significantly different from original or final budget estimates. Budget basis expenditures of \$1,789,759 were 3% 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 2015 the Village had \$15,579,753 net of accumulated depreciation invested in land, construction in progress, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$6,387,399 was related to governmental activities and \$9,192,354 to the business-type activities. The following tables show fiscal year 2015 and 2014 balances:

	Governmental Activities		Increase (Decrease)
	2015	2014	
Land	\$414,574	\$414,574	\$0
Buildings	980,604	978,454	2,150
Improvements Other than Buildings	203,459	179,995	23,464
Machinery and Equipment	3,454,959	3,288,463	166,496
Infrastructure	5,591,837	5,178,806	413,031
Less: Accumulated Depreciation	(4,258,034)	(3,871,128)	(386,906)
Totals	<u>\$6,387,399</u>	<u>\$6,169,164</u>	<u>\$218,235</u>

The increase in machinery and equipment can be attributed to equipment and vehicle purchases in the police, fire, and street departments, while an increase in infrastructure can be attributed to routine street maintenance and sidewalk improvements.

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2015**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2015	2014	
Land	\$177,511	\$177,511	\$0
Construction in Progress	36,616	0	36,616
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	1,611,903	1,611,903	0
Machinery and Equipment	1,498,565	1,462,802	35,763
Infrastructure	11,506,564	11,506,564	0
Less: Accumulated Depreciation	(7,612,012)	(7,264,999)	(347,013)
Totals	\$9,192,354	\$9,466,988	(\$274,634)

Construction in progress consisted of a building replacement in the wastewater department. Machinery and equipment acquisitions consisted of routine equipment purchases in both the water and wastewater departments. Additional information on the Village's capital assets can be found in Note 10.

Debt

At December 31, 2015, the Village had \$2,490,000 in general obligation bonds outstanding, \$265,000 due within one year. The following table summarizes the Village's long-term obligations outstanding as of December 31, 2015 and 2014:

	2015	Restated 2014
Governmental Activities:		
Ohio Public Works Commission Loan	\$108,000	\$116,000
General Obligation Bonds	370,000	385,000
ODOT Street Improvement Loan	0	95,882
Long Term Promissory Notes	10,416	62,795
Capital Leases	132,649	103,596
Net Pension Liability	1,456,995	1,388,402
Compensated Absences	91,860	98,956
Total Governmental Activities	2,169,920	2,250,631
Business-Type Activities:		
General Obligation Bonds	2,120,000	2,355,000
Ohio Public Works Commission Loans	769,470	820,598
Ohio Water Development Authority Loans	2,579,287	2,792,466
Capital Leases	0	17,752
Net Pension Liability	412,226	405,973
Compensated Absences	92,363	111,482
Total Business-Type Activities	5,973,346	6,503,271
Totals	\$8,143,266	\$8,753,902

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, 2015, 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, 2015***

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. The annual collection has been approximately \$296,100. This levy was renewed in November 2014. Currently in 2015 we repaved West St, Howell Ave, Lyons Ave, N. James Street, Carbon Hill Rd and Marion Ave. We are continuing to look at future paving projects in and 2015 using the Street Levy monies. The Street Levy was renewed for 5 more years.

The Village of East Palestine had eight (8) new businesses open up in 2015.

We installed a splash pad at the park swimming pool

The Village's 2016 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, 2015*

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 601,825	\$ 839,497	\$ 1,441,322
Investments	133,389	0	133,389
Receivables:			
Taxes	1,245,832	0	1,245,832
Accounts	69,508	285,062	354,570
Intergovernmental	232,878	0	232,878
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	21,570	42,846	64,416
Prepaid Items	25,372	13,394	38,766
Non-Depreciable Capital Assets	414,574	214,127	628,701
Depreciable Capital Assets, Net	5,972,825	8,978,227	14,951,052
Total Assets	8,752,773	10,338,153	19,090,926
Deferred Outflows of Resources:			
Pension:			
OPERS	102,936	67,935	170,871
OP&F	105,517	0	105,517
Total Deferred Outflows of Resources	208,453	67,935	276,388
Liabilities:			
Accounts Payable	17,759	67,622	85,381
Accrued Wages and Benefits	60,739	23,746	84,485
Intergovernmental Payable	5,174	3,454	8,628
Accrued Interest Payable	3,147	24,773	27,920
Noncurrent Liabilities:			
Due Within One Year	83,844	540,435	624,279
Due in More Than One Year:			
Net Pension Liability	1,456,995	412,226	1,869,221
Other Amounts Due in More Than One Year	629,081	5,020,685	5,649,766
Total Liabilities	2,256,739	6,092,941	8,349,680
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	645,911	0	645,911
Pension:			
OPERS	10,164	7,297	17,461
Total Deferred Inflows of Resources	656,075	7,297	663,372
Net Position:			
Net Investment in Capital Assets	5,766,334	3,723,597	9,489,931
Restricted For:			
Capital Projects	269,624	0	269,624
Other Purposes	422,923	0	422,923
Unrestricted (Deficit)	(410,469)	582,253	171,784
Total Net Position	\$ 6,048,412	\$ 4,305,850	\$ 10,354,262

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Activities
For the Year Ended December 31, 2015

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,276,665	\$ 254,572	\$ 22,926	\$ 1,105
Leisure Time Activities	246,121	84,791	23,463	0
Community Environment	2,936	0	13,917	0
Public Health and Welfare	29,088	23,636	0	0
Transportation	440,109	0	304,703	246,155
General Government	461,303	71,728	0	0
Interest and Fiscal Charges	21,783	0	0	0
Total Governmental Activities	2,478,005	434,727	365,009	247,260
Business-Type Activities:				
Water	558,123	595,251	0	0
Wastewater	911,561	1,265,098	0	0
Total Business-Type Activities	1,469,684	1,860,349	0	0
Totals	\$ 3,947,689	\$ 2,295,076	\$ 365,009	\$ 247,260

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 - Restated

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
\$ (998,062)	\$ 0	\$ (998,062)
(137,867)	0	(137,867)
10,981	0	10,981
(5,452)	0	(5,452)
110,749	0	110,749
(389,575)	0	(389,575)
(21,783)	0	(21,783)
<u>(1,431,009)</u>	<u>0</u>	<u>(1,431,009)</u>
0	37,128	37,128
<u>0</u>	<u>353,537</u>	<u>353,537</u>
<u>0</u>	<u>390,665</u>	<u>390,665</u>
<u>\$ (1,431,009)</u>	<u>\$ 390,665</u>	<u>\$ (1,040,344)</u>
109,104	0	109,104
560,457	0	560,457
1,137,118	0	1,137,118
492	0	492
170,500	0	170,500
2,607	0	2,607
92,338	0	92,338
<u>2,072,616</u>	<u>0</u>	<u>2,072,616</u>
641,607	390,665	1,032,272
<u>5,406,805</u>	<u>3,915,185</u>	<u>9,321,990</u>
<u>\$ 6,048,412</u>	<u>\$ 4,305,850</u>	<u>\$ 10,354,262</u>

VILLAGE OF EAST PALESTINE, OHIO

Balance Sheet
Governmental Funds
December 31, 2015

	General	Street Construction Maintenance and Repair	Capital Improvement
Assets:			
Cash and Cash Equivalents	\$ 163,142	\$ 57,614	\$ 42,447
Investments	100,591	0	0
Receivables:			
Taxes	631,790	0	0
Accounts	69,508	0	0
Intergovernmental	37,955	133,714	0
Interfund Loans Receivable	2,174,136	0	0
Inventory of Supplies	0	21,570	0
Prepaid Items	24,540	0	0
Total Assets	\$ 3,201,662	\$ 212,898	\$ 42,447
Liabilities:			
Accounts Payable	\$ 13,593	\$ 2,433	\$ 0
Accrued Wages and Benefits Payable	48,660	7,126	0
Intergovernmental Payable	5,174	0	0
Interfund Loans Payable	0	0	2,139,136
Total Liabilities	67,427	9,559	2,139,136
Deferred Inflows of Resources:			
Unavailable Amounts	426,259	89,143	0
Property Tax Levy for Next Fiscal Year	104,695	0	0
Total Deferred Inflows of Resources	530,954	89,143	0
Fund Balance:			
Nonspendable	2,198,676	21,570	0
Restricted	0	92,626	0
Assigned	140,046	0	0
Unassigned	264,559	0	(2,096,689)
Total Fund Balance	2,603,281	114,196	(2,096,689)
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 3,201,662	\$ 212,898	\$ 42,447

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Street Levy Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 61,856	\$ 276,766	\$ 601,825
0	32,798	133,389
283,182	330,860	1,245,832
0	0	69,508
23,074	38,135	232,878
0	0	2,174,136
0	0	21,570
0	832	25,372
<u>\$ 368,112</u>	<u>\$ 679,391</u>	<u>\$ 4,504,510</u>
\$ 0	\$ 1,733	\$ 17,759
0	4,953	60,739
0	0	5,174
0	0	2,139,136
<u>0</u>	<u>6,686</u>	<u>2,222,808</u>
53,156	69,782	638,340
250,052	291,164	645,911
<u>303,208</u>	<u>360,946</u>	<u>1,284,251</u>
0	832	2,221,078
64,904	310,927	468,457
0	0	140,046
0	0	(1,832,130)
<u>64,904</u>	<u>311,759</u>	<u>997,451</u>
<u>\$ 368,112</u>	<u>\$ 679,391</u>	<u>\$ 4,504,510</u>

VILLAGE OF EAST PALESTINE, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2015***

Total Governmental Fund Balances	\$	997,451
<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.		6,387,399
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		638,340
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	208,453	
Deferred Inflows - Pension	(10,164)	
Net Pension Liability	<u>(1,456,995)</u>	(1,258,706)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(91,860)	
Ohio Public Works Commission Loans Payable	(108,000)	
Capital Leases Payable	(132,649)	
Long Term Promissory Notes	(10,416)	
General Obligation Bonds Payable	(370,000)	
Accrued Interest Payable	<u>(3,147)</u>	<u>(716,072)</u>
<i>Net Position of Governmental Activities</i>	\$	<u>6,048,412</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, 2015

	General	Street Construction Maintenance and Repair	Capital Improvement
Revenues:			
Taxes	\$ 991,624	\$ 0	\$ 0
Intergovernmental Revenues	341,751	281,566	0
Charges for Services	228,979	0	0
Licenses and Permits	71,728	0	0
Investment Earnings	2,607	0	0
Fines and Forfeitures	12,355	0	0
All Other Revenue	78,627	7,201	0
Total Revenue	1,727,671	288,767	0
Expenditures:			
Current:			
Security of Persons and Property	978,542	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	227,796	0
General Government	666,378	0	0
Capital Outlay	0	0	30,388
Debt Service:			
Principal Retirement	15,000	39,999	63,883
Interest & Fiscal Charges	7,315	0	13,133
Total Expenditures	1,667,235	267,795	107,404
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	60,436	20,972	(107,404)
Other Financing Sources (Uses):			
Other Financing Sources - Capital Lease	0	0	0
Transfers In	0	0	96,965
Transfers Out	(103,965)	0	0
Total Other Financing Sources (Uses)	(103,965)	0	96,965
Net Change in Fund Balance	(43,529)	20,972	(10,439)
Fund Balance at Beginning of Year	2,646,810	94,082	(2,086,250)
Decrease in Inventory	0	(858)	0
Fund Balance End of Year	\$ 2,603,281	\$ 114,196	\$ (2,096,689)

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Street Levy Capital Replacement	Other Governmental Funds	Total Governmental Funds
\$ 278,239	\$ 322,706	\$ 1,592,569
45,527	114,809	783,653
0	120,927	349,906
0	0	71,728
0	0	2,607
0	738	13,093
728	5,782	92,338
<u>324,494</u>	<u>564,962</u>	<u>2,905,894</u>
0	133,396	1,111,938
0	218,577	218,577
0	2,936	2,936
0	29,267	29,267
0	15,362	243,158
0	0	666,378
287,010	79,168	396,566
37,735	36,564	193,181
1,226	659	22,333
<u>325,971</u>	<u>515,929</u>	<u>2,884,334</u>
(1,477)	49,033	21,560
50,973	0	50,973
0	7,000	103,965
0	0	(103,965)
<u>50,973</u>	<u>7,000</u>	<u>50,973</u>
49,496	56,033	72,533
15,408	255,726	925,776
0	0	(858)
<u>\$ 64,904</u>	<u>\$ 311,759</u>	<u>\$ 997,451</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 Year Ended December 31, 2015***

Net Change in Fund Balances - Total Governmental Funds \$ 72,533

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	613,435	
Depreciation Expense	(389,891)	223,544

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.		(5,309)
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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.		213,718
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		139,859
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(151,734)
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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.

Capital Lease Issuance	(50,973)	
Ohio Public Works Commission Loan Retirement	8,000	
General Obligation Bond Retirement	15,000	
Ohio Department of Transportation Loan Retirement	95,882	
Capital Lease Retirement	21,920	
Long Term Promissory Note Retirement	52,379	142,208

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		550
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	7,096	
Change in Inventory	(858)	6,238

Change in Net Position of Governmental Activities **\$ 641,607**

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, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 847,936	\$ 1,083,764	\$ 1,066,666	\$ (17,098)
Intergovernmental Revenues	261,142	333,771	341,029	7,258
Charges for Services	183,075	233,992	228,979	(5,013)
Licenses and Permits	55,550	71,000	71,466	466
Investment Earnings	1,565	2,000	2,607	607
Fines and Forfeitures	10,954	14,000	12,940	(1,060)
All Other Revenues	58,006	74,139	75,627	1,488
Total Revenues	<u>1,418,228</u>	<u>1,812,666</u>	<u>1,799,314</u>	<u>(13,352)</u>
Expenditures:				
Current:				
Security of Persons and Property	834,788	1,019,319	988,586	30,733
General Government	561,153	685,196	674,893	10,303
Debt Service:				
Principal Retirement	12,285	15,000	15,000	0
Interest and Fiscal Charges	5,991	7,315	7,315	0
Total Expenditures	<u>1,414,217</u>	<u>1,726,830</u>	<u>1,685,794</u>	<u>41,036</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	4,011	85,836	113,520	27,684
Other Financing Sources (Uses):				
Transfers Out	(111,970)	(111,970)	(103,965)	8,005
Advances In	5,000	5,000	5,000	0
Total Other Financing Sources (Uses):	<u>(106,970)</u>	<u>(106,970)</u>	<u>(98,965)</u>	<u>8,005</u>
Net Change in Fund Balance	(102,959)	(21,134)	14,555	35,689
Fund Balance at Beginning of Year	156,052	156,052	156,052	0
Prior Year Encumbrances	5,786	5,786	5,786	0
Fund Balance at End of Year	<u>\$ 58,879</u>	<u>\$ 140,704</u>	<u>\$ 176,393</u>	<u>\$ 35,689</u>

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)
Special Revenue Fund – Street Construction , Maintenance and Repair Fund
For the Year Ended December 31, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental Revenue	\$ 272,000	\$ 270,000	\$ 281,424	\$ 11,424
All Other Revenues	0	7,455	7,201	(254)
Total Revenues	<u>272,000</u>	<u>277,455</u>	<u>288,625</u>	<u>11,170</u>
Expenditures:				
Current:				
Transportation	250,599	265,056	226,717	38,339
Debt Service:				
Principal Retirement	<u>40,000</u>	<u>40,000</u>	<u>39,999</u>	<u>1</u>
Total Expenditures	<u>290,599</u>	<u>305,056</u>	<u>266,716</u>	<u>38,340</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(18,599)	(27,601)	21,909	49,510
Other Financing Sources (Uses):				
Transfers In	<u>15,000</u>	<u>15,000</u>	<u>0</u>	<u>(15,000)</u>
Total Other Financing Sources (Uses):	<u>15,000</u>	<u>15,000</u>	<u>0</u>	<u>(15,000)</u>
Net Change in Fund Balance	(3,599)	(12,601)	21,909	34,510
Fund Balance at Beginning of Year	<u>35,404</u>	<u>35,404</u>	<u>35,404</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 31,805</u>	<u>\$ 22,803</u>	<u>\$ 57,313</u>	<u>\$ 34,510</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Net Position
Proprietary Funds
December 31, 2015

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Wastewater	
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$ 523,615	\$ 315,882	\$ 839,497
Receivables:			
Accounts	84,061	201,001	285,062
Inventory of Supplies at Cost	37,711	5,135	42,846
Prepaid Items	6,562	6,832	13,394
Total Current Assets	<u>651,949</u>	<u>528,850</u>	<u>1,180,799</u>
Noncurrent Assets:			
Capital Assets, Net	2,779,256	6,413,098	9,192,354
Total Assets	<u>3,431,205</u>	<u>6,941,948</u>	<u>10,373,153</u>
Deferred Outflows of Resources:			
Pension:			
OPERS	32,046	35,889	67,935
Total Deferred Outflows of Resources	<u>32,046</u>	<u>35,889</u>	<u>67,935</u>
Liabilities:			
Current Liabilities:			
Accounts Payable	17,933	49,689	67,622
Accrued Wages and Benefits	9,691	14,055	23,746
Intergovernmental Payable	0	3,454	3,454
Compensated Absences Payable - Current	8,693	8,896	17,589
Accrued Interest Payable	12,630	12,143	24,773
General Obligation Bonds Payable - Current	25,500	224,500	250,000
OWDA Loans Payable - Current	28,957	192,761	221,718
OPWC Loans Payable - Current	15,934	35,194	51,128
Total Current Liabilities	<u>119,338</u>	<u>540,692</u>	<u>660,030</u>
Noncurrent Liabilities:			
General Obligation Bonds Payable	51,750	1,818,250	1,870,000
OWDA Loans Payable	889,782	1,467,787	2,357,569
OPWC Loans Payable	290,293	428,049	718,342
Compensated Absences Payable	33,813	40,961	74,774
Interfund Loans Payable	10,000	25,000	35,000
Net Pension Liability	187,054	225,172	412,226
Total Noncurrent Liabilities	<u>1,462,692</u>	<u>4,005,219</u>	<u>5,467,911</u>
Total Liabilities	<u>1,582,030</u>	<u>4,545,911</u>	<u>6,127,941</u>
Deferred Inflows of Resources:			
Pension:			
OPERS	3,288	4,009	7,297
Total Deferred Inflows of Resources	<u>3,288</u>	<u>4,009</u>	<u>7,297</u>
Net Position:			
Net Investment in Capital Assets	1,477,040	2,246,557	3,723,597
Unrestricted	400,893	181,360	582,253
Total Net Position	<u>\$ 1,877,933</u>	<u>\$ 2,427,917</u>	<u>\$ 4,305,850</u>

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, 2015**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
Operating Revenues:			
Charges for Services	\$ 570,156	\$ 1,152,383	\$ 1,722,539
Total Operating Revenues	<u>570,156</u>	<u>1,152,383</u>	<u>1,722,539</u>
Operating Expenses:			
Personal Services	241,264	295,391	536,655
Contractual Services	121,971	224,603	346,574
Materials and Supplies	49,389	41,457	90,846
Depreciation	111,130	235,883	347,013
Total Operating Expenses	<u>523,754</u>	<u>797,334</u>	<u>1,321,088</u>
Operating Income	46,402	355,049	401,451
Non-Operating Revenue (Expenses):			
Interest and Fiscal Charges	(34,369)	(113,423)	(147,792)
Other Nonoperating Revenue	25,095	112,715	137,810
Other Nonoperating Expense	0	(804)	(804)
Total Non-Operating Revenues (Expenses)	<u>(9,274)</u>	<u>(1,512)</u>	<u>(10,786)</u>
Change in Net Position	37,128	353,537	390,665
Net Position Beginning of Year - Restated	1,840,805	2,074,380	3,915,185
Net Position End of Year	<u>\$ 1,877,933</u>	<u>\$ 2,427,917</u>	<u>\$ 4,305,850</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, 2015

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$598,629	\$1,244,956	\$1,843,585
Cash Payments for Goods and Services	(197,202)	(279,237)	(476,439)
Cash Payments to Employees	(250,016)	(320,652)	(570,668)
Net Cash Provided by Operating Activities	<u>151,411</u>	<u>645,067</u>	<u>796,478</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(12,714)	(30,901)	(43,615)
Principal Paid on Ohio Water Development Authority Loans	(26,368)	(189,989)	(216,357)
Proceeds from Ohio Water Development Authority Loans	3,178	0	3,178
Principal Paid on General Obligation Bonds	(24,000)	(211,000)	(235,000)
Principal Paid on Ohio Public Works Commission Loans	(15,934)	(35,194)	(51,128)
Interest Paid on All Debt	(28,792)	(115,144)	(143,936)
Net Cash Used by Capital and Related Financing Activities	<u>(104,630)</u>	<u>(582,228)</u>	<u>(686,858)</u>
Increase in Cash and Cash Equivalents	46,781	62,839	109,620
Cash and Cash Equivalents at Beginning of Year	476,834	253,043	729,877
Cash and Cash Equivalents at End of Year	<u>\$523,615</u>	<u>\$315,882</u>	<u>\$839,497</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$46,402	\$355,049	\$401,451
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	111,130	235,883	347,013
Miscellaneous Nonoperating Revenue	25,095	93,113	118,208
Miscellaneous Nonoperating Expense	0	(804)	(804)
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	3,378	(540)	2,838
Increase in Inventory	(24,951)	(3,265)	(28,216)
Increase in Prepaid Items	(1,308)	(3,340)	(4,648)
Increase in Deferred Outflows	(32,046)	(35,889)	(67,935)
Decrease in Accounts Payable	(2,293)	(12,389)	(14,682)
Increase in Intergovernmental Payable	0	854	854
Decrease in Accrued Wages and Benefits	(743)	(1,186)	(1,929)
Decrease in Compensated Absences	(3,136)	(15,983)	(19,119)
Increase in Deferred Inflows	3,288	4,009	7,297
Increase in Net Pension Liability	26,595	29,555	56,150
Total Adjustments	<u>105,009</u>	<u>290,018</u>	<u>395,027</u>
Net Cash Provided by Operating Activities	<u>\$151,411</u>	<u>\$645,067</u>	<u>\$796,478</u>

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, 2015

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, 2015

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.

Street Construction, Maintenance and Repair Fund - This fund is used to account for revenues distributed by the State from the motor vehicle registration and gasoline tax. Expenditures may only be used for Village street construction, maintenance and repair.

Capital Improvement Fund - This fund is used to account for income tax revenue in the form of transfers to be used for the major capital projects undertaken by the Village and related debt payments 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, 2015

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, 2015

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, 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, 2015 but which are not intended to finance 2015 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 6.

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, 2015

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 2015.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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 and Major Special Revenue 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, 2015**

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 and Major Special Revenue Fund:

	Net Change in Fund Balance	
	General Fund	Street Construction Maintenance and Repair Fund
GAAP Basis (as reported)	(\$43,529)	\$20,972
Increase (Decrease):		
Accrued Revenues at December 31, 2015 received during 2016	(208,299)	(44,571)
Accrued Revenues at December 31, 2014 received during 2015	287,942	44,429
Accrued Expenditures at December 31, 2015 paid during 2016	67,427	9,559
Accrued Expenditures at December 31, 2014 paid during 2015	(75,279)	(8,179)
2014 Prepays for 2015	22,228	0
2015 Prepays for 2016	(24,540)	0
Outstanding Encumbrances	(8,395)	(301)
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(3,000)	0
Budget Basis	\$14,555	\$21,909

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, 2015

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. At December 31, 2015 the Village reported \$133,389 of investments, which are certificates of deposit with original maturities of greater than three months.

The Village invested funds in the STAR Ohio during 2015. 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, 2015. 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, 2015***

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, 2015***

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	General Fund, Capital Improvement Fund, 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
Long Term Promissory Notes	Parks and Recreation Fund, Cemetery Fund, Street Levy Capital Replacement Fund, Fire Capital Replacement Fund
Capital Leases	Water Fund, Wastewater Fund, Street Levy Capital Replacement Fund, Fire Capital Replacement 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, 2015

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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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, 2015

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, 2015.

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, 2015

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 2015.

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. For the Village, deferred outflows of resources are reported for pension amounts on the government-wide and proprietary funds statement of net position. See Note 11.

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. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position. See Note 11.

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2015***

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

In 2015 the Village implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure.

The implementation of GASB 68 had the following effect on net position as reported December 31, 2014:

	Governmental Activities	Business-type Activities	Water Fund	Wastewater Fund
Net position December 31, 2014	\$6,653,636	\$4,271,261	\$2,001,264	\$2,269,997
Adjustments:				
Net Pension Liability	(1,388,402)	(405,973)	(182,944)	(223,029)
Deferred Outflows -				
Payments Subsequent to Measurement Date	141,571	49,897	22,485	27,412
Restated Net Position December 31, 2014	<u>\$5,406,805</u>	<u>\$3,915,185</u>	<u>\$1,840,805</u>	<u>\$2,074,380</u>

Other than employer contributions subsequent to the measurement date, the Village made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficit at December 31, 2015 of \$2,096,689 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.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

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	Street Construction Maintenance and Repair Fund	Capital Improvement Fund	Street Levy Capital Replacement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid Items	\$24,540	\$0	\$0	\$0	\$832	\$25,372
Supplies Inventory	0	21,570	0	0	0	21,570
Interfund Loans Receivable	2,174,136	0	0	0	0	2,174,136
Total Nonspendable	<u>2,198,676</u>	<u>21,570</u>	<u>0</u>	<u>0</u>	<u>832</u>	<u>2,221,078</u>
Restricted:						
Fire Capital Improvements	0	0	0	0	91,320	91,320
Police Capital Improvements	0	0	0	0	43,774	43,774
Street Capital Improvements	0	0	0	64,904	0	64,904
Community Development and Improvement	0	0	0	0	84,253	84,253
Street Maintenance and Repair	0	92,626	0	0	10,659	103,285
Fire Protection	0	0	0	0	403	403
EMS Training	0	0	0	0	1,840	1,840
Parks and Recreation	0	0	0	0	16,801	16,801
Cemetery Maintenance	0	0	0	0	33,893	33,893
Law Enforcement	0	0	0	0	27,984	27,984
Total Restricted	<u>0</u>	<u>92,626</u>	<u>0</u>	<u>64,904</u>	<u>310,927</u>	<u>468,457</u>
Assigned:						
Encumbrances	8,297	0	0	0	0	8,297
Compensated Absences	141	0	0	0	0	141
Budget Resource	131,608	0	0	0	0	131,608
Total Assigned	<u>140,046</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>140,046</u>
Unassigned (Deficits):	264,559	0	(2,096,689)	0	0	(1,832,130)
Total Fund Balances	<u>\$2,603,281</u>	<u>\$114,196</u>	<u>(\$2,096,689)</u>	<u>\$64,904</u>	<u>\$311,759</u>	<u>\$997,451</u>

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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, 2015**

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 \$1,503,452 and the bank balance was \$1,521,307. Federal depository insurance covered \$1,495,801 of the bank balance and \$25,506 was collateralized by the financial institutions' public entity deposit pools in the manner described above.

Investment earnings of \$2,292 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The Village's investments at December 31, 2015 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	\$71,259	AAAm ¹	\$71,259	\$0	\$0
Total Investments	<u>\$71,259</u>		<u>\$71,259</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, 2015**

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	\$1,441,322	\$133,389
Certificates of Deposit (with maturities of more than 3 months)	133,389	(133,389)
Investments:		
STAR Ohio	<u>(71,259)</u>	<u>71,259</u>
Per GASB Statement No. 3	<u>\$1,503,452</u>	<u>\$71,259</u>

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property located in the Village. Real property taxes (other than public utility) collected during 2015 were levied after October 1, 2014 on assessed values as of January 1, 2014, 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, 2015

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, 2015 was \$13.90 per \$1,000 of assessed value. The assessed value upon which the 2015 tax levy was based was \$61,717,850. This amount constitutes \$58,319,620 in real property assessed value and \$3,398,230 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, 2015 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, 2015**

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2015:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$0	\$103,965
Capital Improvement Fund	96,965	0
Other Governmental Funds	7,000	0
Totals	<u>\$103,965</u>	<u>\$103,965</u>

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2015:

<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	2,174,136	2,139,136
Proprietary Funds:		
Water Fund	0	10,000
Wastewater Fund	0	25,000
Total Proprietary Funds	0	35,000
Totals	<u>\$2,174,136</u>	<u>\$2,174,136</u>

Interfund loans of \$2,174,136 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 Village 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, 2015**

NOTE 10 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2015:

Historical Cost:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
Capital assets not being depreciated:				
Land	\$414,574	\$0	\$0	\$414,574
Subtotal	414,574	0	0	414,574
Capital assets being depreciated:				
Buildings	978,454	2,150	0	980,604
Improvements Other than Buildings	179,995	23,464	0	203,459
Machinery and Equipment	3,288,463	174,790	(8,294)	3,454,959
Infrastructure	5,178,806	413,031	0	5,591,837
Subtotal	9,625,718	613,435	(8,294)	10,230,859
Total Cost	<u>\$10,040,292</u>	<u>\$613,435</u>	<u>(\$8,294)</u>	<u>\$10,645,433</u>

Accumulated Depreciation:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
Buildings	(\$464,844)	(\$21,298)	\$0	(\$486,142)
Improvements Other than Buildings	(92,087)	(8,628)	0	(100,715)
Machinery and Equipment	(2,367,323)	(164,819)	2,985	(2,529,157)
Infrastructure	(946,874)	(195,146)	0	(1,142,020)
Total Depreciation	<u>(\$3,871,128)</u>	<u>(\$389,891) *</u>	<u>\$2,985</u>	<u>(\$4,258,034)</u>
Net Value:	<u>\$6,169,164</u>			<u>\$6,387,399</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$153,451
Leisure Time Activities	31,406
Transportation	196,730
General Government	8,304
Total Depreciation Expense	<u>\$389,891</u>

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 10 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2015:

Historical Cost:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
<i>Capital assets not being depreciated:</i>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	0	36,616	0	36,616
Subtotal	<u>177,511</u>	<u>36,616</u>	<u>0</u>	<u>214,127</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	1,611,903	0	0	1,611,903
Machinery and Equipment	1,462,802	35,763	0	1,498,565
Infrastructure	11,506,564	0	0	11,506,564
Subtotal	<u>16,554,476</u>	<u>35,763</u>	<u>0</u>	<u>16,590,239</u>
Total Cost	<u><u>\$16,731,987</u></u>	<u><u>\$72,379</u></u>	<u><u>\$0</u></u>	<u><u>\$16,804,366</u></u>

Accumulated Depreciation:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
Buildings	(\$1,528,387)	(\$49,330)	\$0	(\$1,577,717)
Improvements Other than Buildings	(355,271)	(32,075)	0	(387,346)
Machinery and Equipment	(1,329,231)	(23,704)	0	(1,352,935)
Infrastructure	(4,052,110)	(241,904)	0	(4,294,014)
Total Depreciation	<u><u>(\$7,264,999)</u></u>	<u><u>(\$347,013)</u></u>	<u><u>\$0</u></u>	<u><u>(\$7,612,012)</u></u>
<i>Net Value:</i>	<u><u>\$9,466,988</u></u>			<u><u>\$9,192,354</u></u>

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Village's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Village's obligation for this liability to annually required payments. The Village cannot control benefit terms or the manner in which pensions are financed; however, the Village does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - Village employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Village employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The Village's contractually required contribution was \$117,837 for 2015. Of this amount, \$9,909 is reported as an intergovernmental payable.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - Village full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2015 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
2015 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The Village's contractually required contribution to OPF was \$67,794 for 2015. Of this amount \$5,830 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The Village's proportion of the net pension liability was based on the Village's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$993,958	\$875,263	\$1,869,221
Proportion of the Net Pension Liability	0.008241%	0.0168956%	
Pension Expense	\$106,284	\$86,734	\$193,018

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2015, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$53,034	\$37,723	\$90,757
Village contributions subsequent to the measurement date	<u>117,837</u>	<u>67,794</u>	<u>185,631</u>
Total Deferred Outflows of Resources	<u>\$170,871</u>	<u>\$105,517</u>	<u>\$276,388</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	<u>\$17,461</u>	<u>\$0</u>	<u>\$17,461</u>

\$185,631 reported as deferred outflows of resources related to pension resulting from Village contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2016	\$5,202	\$9,431	\$14,633
2017	5,202	9,431	14,633
2018	11,911	9,431	21,342
2019	<u>13,258</u>	<u>9,430</u>	<u>22,688</u>
Total	<u>\$35,573</u>	<u>\$37,723</u>	<u>\$73,296</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Village’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Village’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Village’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Village's proportionate share of the net pension liability	\$1,828,595	\$993,958	\$290,990

Actuarial Assumptions – OPF

OPF’s total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* levered 2x

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Village's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Village's proportionate share of the net pension liability	\$1,210,620	\$875,263	\$591,316

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 coverage, deposits to a Health Reimbursement Arrangement, 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 20 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. Please see the Plan Statement in the OPERS 2014 CAFR for details.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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/financial/reports.shtml#CAFR>, 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 2015, 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.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee’s Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The Village's contributions for health care to the OPERS for the years ending December 31, 2015, 2014, and 2013 were \$20,031, \$20,230 and \$9,644, 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, 2015

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

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.

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 2015, the portion of employer contributions allocated to health care was 0.5% of covered payroll 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, 2015, 2014, and 2013 were \$1,675, \$1,625 and \$10,933 for police and \$280, \$289 and \$1,982 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, 2015**

NOTE 13 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the Village at December 31, 2015 were as follows:

			Restated Balance December 31, 2014	Additions	Deductions	Balance December 31, 2015	Amount Due Within One Year
Governmental Activities:							
Ohio Public Works Commission Loan:							
Bridge Replacement	0.00%	2029	\$116,000	\$0	(\$8,000)	\$108,000	\$8,000
General Obligation Bonds:							
Various Purpose	4.75%	2033	385,000	0	(15,000)	370,000	15,000
Ohio Department of Transportation Loan:							
Street Improvement	3.00%	2015	95,882	0	(95,882)	0	0
Long Term Promissory Notes:							
Road Paving	2.85%	2015	37,735	0	(37,735)	0	0
Roof Repair	3.35%	2016	19,383	0	(12,813)	6,570	6,570
Cemetery Mower	3.15%	2017	5,677	0	(1,831)	3,846	1,892
Total Long Term Promissory Notes			62,795	0	(52,379)	10,416	8,462
Capital Leases			103,596	50,973	(21,920)	132,649	29,232
Net Pension Liability:							
Ohio Public Employees Retirement System			565,533	16,199	0	581,732	0
Ohio Police and Fire Pension Fund			822,869	52,394	0	875,263	0
Total Net Pension Liability			1,388,402	68,593	0	1,456,995	0
Compensated Absences Payable			98,956	19,321	(26,417)	91,860	23,150
Total Governmental Activities			<u>\$2,250,631</u>	<u>\$138,887</u>	<u>(\$219,598)</u>	<u>\$2,169,920</u>	<u>\$83,844</u>

A. Governmental Activities

OPWC Loan - In 2005, the Village entered into an agreement with the Ohio Public Works Commission for a loan for replacement of the West Street Bridge. The interest rate on the loan is 0%. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$160,000 to be paid through 2029. As of December 31, 2015, the loan had an outstanding balance of \$108,000.

General Obligation Bonds – In 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. As of December 31, 2015, the bonds had an outstanding balance of \$370,000.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

A. Governmental Activities (Continued)

Long Term Promissory Notes - In 2011 the Village issued a \$61,000 promissory note for roof repair at the Village pool. The note carries a 3.35% interest rate and matures in 2016. In 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. As of December 31, 2015, the roof repair loan and the mower loan had outstanding balances of \$6,570, and \$3,846, respectively.

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VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

			Restated Balance December 31, 2014	Additions	Deductions	Balance December 31, 2015	Amount Due Within One Year
Business-Type Activities:							
General Obligation Bonds:							
Various Purpose Refunding Bond	2.0-3.25%	2018	\$675,000	\$0	(\$160,000)	\$515,000	\$170,000
Sewerage System Refunding Bond	2.25-5.0%	2031	1,680,000	0	(75,000)	1,605,000	80,000
Total General Obligation Bonds:			2,355,000	0	(235,000)	2,120,000	250,000
Ohio Public Works Commission Loans:							
Phase Five Sanitary Sewer	0.00%	2025	296,450	0	(26,950)	269,500	26,950
Brookdale Water	0.00%	2039	86,561	0	(3,534)	83,027	3,534
Brookdale Sewer	0.00%	2039	201,987	0	(8,244)	193,743	8,244
Water Storage Facility	0.00%	2033	235,600	0	(12,400)	223,200	12,400
Total OPWC Loans:			820,598	0	(51,128)	769,470	51,128
Ohio Water Development Authority Loans:							
Sewer Project - Phase Two	2.20%	2020	395,816	0	(68,469)	327,347	69,983
Wastewater Treatment Plant	1.00%	2025	1,362,790	0	(117,804)	1,244,986	118,984
Waterline Extension	3.95%	2038	78,658	0	(2,016)	76,642	2,096
Sewer Line Extension	3.95%	2038	52,298	0	(1,340)	50,958	1,394
WWTP Phosphorous Reduction	1.00%	2030	39,633	0	(2,376)	37,257	2,400
Water Booster Station	4.14%	2032	253,118	0	(10,098)	243,020	10,520
Moore Lane	2.00%	2042	253,440	3,110	(5,411)	251,139	7,096
Wheathill Reservoir	1.94%	2043	356,713	68	(8,843)	347,938	9,245
Total OWDA Loans:			2,792,466	3,178	(216,357)	2,579,287	221,718
Capital Leases			17,752	0	(17,752)	0	0
Net Pension Liability:							
Ohio Public Employees Retirement System			405,973	6,253	0	412,226	0
Compensated Absences			111,482	10,323	(29,442)	92,363	17,589
Total Business-Type Activities			\$6,503,271	\$19,754	(\$549,679)	\$5,973,346	\$540,435

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

B. Business-Type Activities

OWDA Loan - 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, 2015, the loan had an outstanding balance of \$327,347.

OWDA Loan - 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, 2015, the loan had an outstanding balance of \$1,244,986.

OWDA Loan - 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, 2015, the loan had an outstanding balance of \$76,642.

OWDA Loan - 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, 2015, the loan had an outstanding balance of \$50,958.

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, 2015, the loan had an outstanding balance of \$37,257.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

B. Business-Type Activities (Continued)

OWDA Loan - 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, 2015, the loan had an outstanding balance of \$243,020.

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 Village began repaying the loan in semiannual payments in 2014 based on a loan amount of \$271,597 to be paid through 2042. As of December 31, 2015, the loan had an outstanding balance of \$251,139.

OWDA 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 Village began repaying the loan in semiannual payments in 2014 based on a loan amount of \$361,475 to be paid through 2044. As of December 31, 2015, the loan had an outstanding balance of \$347,938.

OPWC Loan - In 2005, the Village entered into an agreement with the Ohio Public Works Commission to receive a loan for sanitary sewer improvements. The interest rate on the loan is 0%. This loan is payable from wastewater service charges. The Village began repaying the loan in semiannual payments in 2005 based on a loan amount of \$539,000 to be paid through 2025. As of December 31, 2015, the loan had an outstanding balance of \$269,500.

OPWC Loan - In 2007, the Village entered into an agreement with the Ohio Public Works Commission to receive a loan for water and sewer line improvements. The interest rate on the loan is 0%. This loan is payable from water and wastewater service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$353,327 to be paid through 2039. As of December 31, 2015, the loan had an outstanding balance of \$276,770.

OPWC Loan - In 2005, the Village entered into an agreement with the Ohio Public Works Commission to receive a loan for water storage facility improvements. The interest rate on the loan is 0%. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2014 based on a loan amount of \$248,000 to be paid through 2033. As of December 31, 2015, the loan had an outstanding balance of \$223,200.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

C. 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 \$1,627,000 at December 31, 2015, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

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 \$515,000 at December 31, 2015, 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, 2015**

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

D. 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, 2015 follows:

Years	Governmental Activities					
	OPWC Loan		General Obligation Bonds		Promissory Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$8,000	\$0	\$15,000	\$17,576	\$8,462	\$191
2017	8,000	0	15,000	16,862	1,954	65
2018	8,000	0	15,000	16,150	0	0
2019	8,000	0	15,000	15,438	0	0
2020	8,000	0	15,000	14,726	0	0
2021-2025	40,000	0	95,000	61,512	0	0
2026-2030	28,000	0	120,000	36,576	0	0
2031-2035	0	0	80,000	7,838	0	0
Totals	\$108,000	\$0	\$370,000	\$186,678	\$10,416	\$256

Years	Business-Type Activities					
	General Obligation Bonds		OWDA Loans		OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$250,000	\$86,276	\$221,718	\$45,990	\$51,128	\$0
2017	255,000	78,576	225,384	42,320	51,128	0
2018	260,000	70,714	229,128	38,579	51,128	0
2019	90,000	61,626	232,952	34,758	51,128	0
2020	90,000	58,026	198,461	30,847	51,128	0
2021-2025	525,000	229,028	837,779	116,852	255,640	0
2026-2030	650,000	98,152	229,603	67,861	120,890	0
2031-2035	0	0	177,450	35,910	96,090	0
2036-2040	0	0	149,517	16,138	41,210	0
2041-2044	0	0	77,295	2,699	0	0
Totals	\$2,120,000	\$682,398	\$2,579,287	\$431,954	\$769,470	\$0

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 14 - CAPITAL LEASES

The Village leases an ambulance and asphalt repair equipment under capital leases. The original cost of the equipment and the related liability are reported on the 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, 2015:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2016	\$32,920
2017	32,920
2018	32,920
2019	32,920
2020	<u>11,000</u>
Minimum Lease Payments	<u>142,680</u>
Less amount representing interest at the Village's incremental borrowing rate of interest	<u>(10,031)</u>
Present value of minimum lease payments	<u><u>\$132,649</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, 2015***

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 2015, the Village made contributions to the Pool totaling \$66,744.

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 - CONSTRUCTION COMMITMENTS

The Village had the following contractual commitments at December 31, 2015:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
WWTP Roof Replacement	\$90,667	March 2016

NOTE 17 - 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.

VILLAGE OF EAST PALESTINE, OHIO

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF EAST PALESTINE, OHIO

***Schedule of Village's Proportionate Share of the Net Pension Liability
Last Two Years***

Ohio Public Employees Retirement System

Fiscal Year	<u>2013</u>	<u>2014</u>
Village's proportion of the net pension liability (asset)	0.008241%	0.008241%
Village's proportionate share of the net pension liability (asset)	\$971,506	\$993,958
Village's covered-employee payroll	\$964,362	\$995,042
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	100.74%	99.89%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

Fiscal Year	<u>2013</u>	<u>2014</u>
Village's proportion of the net pension liability (asset)	0.0168956%	0.0168956%
Village's proportionate share of the net pension liability (asset)	\$822,869	\$875,263
Village's covered-employee payroll	\$346,505	\$353,944
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	237.48%	247.29%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The Village implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

VILLAGE OF EAST PALESTINE, OHIO

***Schedule of Village Contributions
Last Three Years***

Ohio Public Employees Retirement System

Fiscal Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$125,367	\$119,405	\$117,837
Contributions in relation to the contractually required contribution	<u>125,367</u>	<u>119,405</u>	<u>117,837</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Village's covered-employee payroll	\$964,362	\$995,042	\$981,975
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

Fiscal Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$59,183	\$72,063	\$67,794
Contributions in relation to the contractually required contribution	<u>59,183</u>	<u>72,063</u>	<u>67,794</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Village's covered-employee payroll	\$346,505	\$353,944	\$337,451
Contributions as a percentage of covered-employee payroll	17.08%	20.36%	20.09%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The Village implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

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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 year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 30, 2016. We also noted the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standard No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*.

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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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*.

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 Entity'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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

August 30, 2016

VILLAGE OF EAST PALESTINE
COLUMBIANA COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015

Finding Number	Finding Summary	Status	Additional Information
2013-001	The Village did not accurately post all transactions.	Not Corrected.	Repeated in the management letter.

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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
SEPTEMBER 22, 2016