

**CITY OF EAST PALESTINE**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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





Mary Taylor, CPA  
Auditor of State

City Council  
City of East Palestine  
144 North Market Street  
East Palestine, Ohio 44413

We have reviewed the *Independent Auditors' Report* of the City of East Palestine, Columbiana County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of East Palestine is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 1, 2010

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**CITY OF EAST PALESTINE  
COLUMBIANA COUNTY**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management Discussion and Analysis.....	3
<b>Government-wide Financial Statements:</b>	
Statement of Nets Assets Year Ended December 31, 2009.....	13
Statement of Activities Year Ended December 31, 2009.....	14
<b>Fund Financial Statements:</b>	
<b>Governmental Funds</b>	
Balance Sheet, Year Ended December 31, 2009.....	16
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activites.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance, Year Ended December 31, 2009.....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	22
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - General Fund, Year Ended December 31, 2009.....	23
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - Street (SCM&R) Fund, Year Ended December 31, 2009.....	24
Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances- Budget and Actual (Non-GAAP Budgetary Basis) - Electric Trust Fund, Year Ended December 31, 2009.....	25
<b>Proprietary Funds</b>	
Statement of Net Assets, Year Ended December 31, 2009.....	26
Statement of Revenues, Expenses and Changes in Fund Net Assets, Year Ended December 31, 2009.....	27
Statement of Cash Flows, Year Ended December 31, 2009.....	28
Notes to the Financial Statements.....	29
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By Government Auditing Standards.....	57



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

**INDEPENDENT AUDITORS' REPORT**

City of East Palestine  
Columbiana County  
144 North Market Street  
East Palestine, Ohio 44413

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palestine, Columbiana County as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palestine, Columbiana County as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, Street Fund and Electric Trust Fund for the year then ended in conformity generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2010, on our consideration of City of East Palestine's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
June 4, 2010

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

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

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2009***

***Unaudited***

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The discussion and analysis of the City of East Palestine's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2009 are as follows:

- ❑ In total, net assets decreased \$122,316. Net assets of governmental activities decreased \$202,711, which represents a 4% change from 2008. Net assets of business-type activities increased \$80,395 or 3% from 2008.
- ❑ General revenues accounted for \$1,633,934 in revenue or 37% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,819,817, 63% of total revenues of \$4,453,751.
- ❑ The City had \$3,078,914 in expenses related to governmental activities; only \$1,242,269 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,633,934 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,569,673 in revenues and \$1,476,644 in expenditures. The general fund's fund balance increased from a deficit of \$563,773 to a deficit of \$482,741.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

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

# **CITY OF EAST PALESTINE, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2009***

***Unaudited***

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## **Government-wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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

## CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2009**

**Unaudited**

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

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net assets for 2009 compared to 2008.

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$1,937,047	\$1,648,315	\$321,088	\$285,047	\$2,258,135	\$1,933,362
Capital assets, Net	5,115,546	5,916,205	9,403,723	9,761,019	14,519,269	15,677,224
Total assets	7,052,593	7,564,520	9,724,811	10,046,066	16,777,404	17,610,586
Long-term debt outstanding	1,200,508	1,415,457	7,144,301	7,525,227	8,344,804	8,940,684
Other liabilities	532,112	626,374	96,584	117,308	628,696	743,682
Total liabilities	1,732,615	2,041,831	7,240,885	7,642,535	8,973,500	9,684,366
Net assets						
Invested in capital assets, net of related debt	4,056,217	4,670,779	2,432,852	2,399,653	6,489,069	7,070,432
Restricted	3,766,245	3,404,119	0	0	3,766,245	3,404,119
Unrestricted	(2,502,484)	(2,552,209)	51,074	3,878	(2,451,410)	(2,548,331)
Total net assets	\$5,319,978	\$5,522,689	\$2,483,926	\$2,408,531	\$7,808,904	\$7,926,220

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## CITY OF EAST PALESTINE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2009

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2009 compared to 2008:

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for Services and Sales	\$447,595	\$423,667	\$1,577,548	\$1,584,422	\$2,025,143	\$2,008,089
Operating Grants and Contributions	794,674	272,752	0	0	794,674	272,752
Capital Grants and Contributions	0	1,508,000	0	25,000	0	1,533,000
Total Program revenues	1,242,269	2,204,419	1,577,548	1,609,422	2,819,817	3,813,841
General revenues:						
Property Taxes	432,219	449,854	0	0	432,219	449,854
Income Taxes	835,691	858,829	0	0	835,691	858,829
Other Local Taxes	1,491	641	0	0	1,491	641
Intergovernmental Revenues, Unrestricted	176,957	220,953	0	0	176,957	220,953
Investment Earnings	2,548	8,632	0	0	2,548	8,632
Miscellaneous	185,028	132,288	0	0	185,028	132,288
Total General revenues	1,633,934	1,671,197	0	0	1,633,934	1,671,197
Total revenues	2,876,203	3,875,616	1,577,548	1,609,422	4,453,751	5,485,038
Program Expenses						
Security of Persons and Property	1,037,370	1,154,962	0	0	1,037,370	1,154,962
Leisure Time Activities	237,620	250,003	0	0	237,620	250,003
Community Environment	279,790	225,378	0	0	279,790	225,378
Public Health and Welfare	71,081	91,748	0	0	71,081	91,748
Transportation	387,943	398,711	0	0	387,943	398,711
General Government	1,033,554	647,383	0	0	1,033,554	647,383
Interest and Fiscal Charges	31,556	21,425	0	0	31,556	21,425
Water	0	0	546,010	482,119	546,010	482,119
Wastewater	0	0	951,143	1,058,070	951,143	1,058,070
Total expenses	3,078,914	2,789,610	1,497,153	1,540,189	4,576,067	4,329,799
Change in Net Assets before transfers	(202,711)	1,086,006	80,395	69,233	(122,316)	1,155,239
Transfers	0	131,500	0	(131,500)	0	0
Total Change in Net Assets	(202,711)	1,217,506	80,395	(62,267)	(122,316)	1,155,239
Beginning Net Assets	5,522,689	4,305,183	2,403,531	2,465,798	7,926,220	6,770,981
Ending Net Assets	\$5,319,978	\$5,522,689	\$2,483,926	\$2,403,531	\$7,803,904	\$7,926,220

### Governmental Activities

Net assets of the City's governmental activities decreased \$202,711 or 4% from the previous year. Operating grants and contributions increased due to increases in Community Development Block (CDBG) grants. In fiscal year 2008, State contributions for replacement of the West Street Bridge as well as resurfacing work on Park Avenue resulted in the increase in capital grants and contributions. This resulted in the subsequent decrease in these capital grants in 2009. The disposal of a building resulted in the increase in general government expenditures.

## CITY OF EAST PALESTINE, OHIO

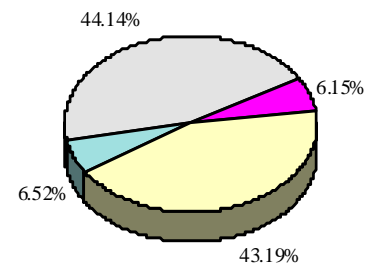
**Management's Discussion and Analysis  
For the Year Ended December 31, 2009**

**Unaudited**

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

Income taxes and property taxes made up 29% and 15% respectively of revenues for governmental activities for the City in fiscal year 2009. The City's reliance upon tax revenues is demonstrated by the following graph indicating 44% of total revenues from general tax revenues:

Revenue Sources	2009	Percent of Total
General Tax Revenues	\$1,269,401	44.14%
Intergovernmental Revenues, Unrestricted	176,957	6.15%
Program Revenues	1,242,269	43.19%
General Other	187,576	6.52%
Total Revenue	<u>\$2,876,203</u>	<u>100.00%</u>



### **Business-Type Activities**

Net assets of the business-type activities increased \$80,395. Revenues and expenses were consistent with the previous year.

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

The City's governmental funds reported a combined fund balance of \$612,093, which is an increase from last year's balance of \$540,408. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2009 and 2008:

	Fund Balance/Deficit December 31, 2009	Fund Balance/Deficit December 31, 2008	Increase (Decrease)
General	(\$482,741)	(\$563,773)	\$81,032
SCM&R	56,053	31,069	24,984
Electric Trust	3,147,284	3,142,893	4,391
Capital Improvement	(2,105,466)	(2,133,463)	27,997
Other Governmental	(3,037)	63,682	(66,719)
Total	<u>\$612,093</u>	<u>\$540,408</u>	<u>\$71,685</u>

## CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2009**

**Unaudited**

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

	2009 Revenues	2008 Revenues	Increase (Decrease)
Taxes	\$957,661	\$985,414	(\$27,753)
Intergovernmental Revenue	132,082	198,665	(66,583)
Charges for Services	247,619	235,184	12,435
Licenses and Permits	77,728	77,500	228
Investment Earnings	1,001	8,168	(7,167)
Fines and Forfeitures	8,303	5,512	2,791
All Other Revenue	145,279	78,164	67,115
Total	\$1,569,673	\$1,588,607	(\$18,934)

Overall, General Fund revenues in 2009 remained relatively consistent, decreasing approximately 1% compared to revenues in 2008. The decrease in tax revenue was the result of a decrease in income taxes, which can be attributed to the overall state of the economy. A decrease in inheritance taxes and local government contributed to the decrease in intergovernmental revenue while a decrease in interest rates resulted in the decrease in investment earnings.

	2009 Expenditures	2008 Expenditures	Increase (Decrease)
Security of Persons and Property	\$938,378	\$935,420	\$2,958
Public Health and Welfare	33,814	44,628	(10,814)
General Government	499,256	538,645	(39,389)
Debt Service:			
Principal Retirement	2,340	0	2,340
Interest and Fiscal Charges	2,856	0	2,856
Total	\$1,476,644	\$1,518,693	(\$42,049)

General Fund expenditures in 2009 decreased \$42,049 or 3% from 2008. A decrease in the number of days worked by the City nurse resulted in the decrease in public health and welfare. The principal retirement and interest charges were the result of a bank loan for the purchase of a new city hall building.

*Street Construction, Maintenance and Repair (SCM&R) Fund* – The City's SCM&R Fund reported an increase in license fees as well as a decrease in costs for salaries and benefits, resulting in a net increase in fund balance.

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

*Capital Improvement Fund* - The Capital Improvement Fund balance changed approximately 1% to a deficit fund balance of \$2,105,466. An interfund loan payable to the electric trust fund is the primary factor contributing to this fund's large negative fund balance.

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

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2009***

***Unaudited***

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

During the course of fiscal year 2009 the City amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$1,573,674 was not significantly different from original or final budget estimates. Similarly, budget basis expenditures of \$1,539,036 were not significantly different from original or final budget estimates. The General Fund had an adequate fund balance to cover expenditures.

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

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

At the end of 2009 the City had \$14,519,269 net of accumulated depreciation invested in land, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$5,115,546 was related to governmental activities and \$9,403,723 to the business-type activities. The following table shows fiscal years 2009 and 2008 balances:

	Governmental Activities		Increase (Decrease)
	2009	2008	
Land	\$266,674	\$298,749	(\$32,075)
Buildings	978,454	1,900,488	(922,034)
Improvements Other than Buildings	179,995	131,640	48,355
Machinery and Equipment	2,619,567	2,621,534	(1,967)
Infrastructure	3,534,630	3,543,635	(9,005)
Less: Accumulated Depreciation	(2,463,774)	(2,579,841)	116,067
Totals	<u>\$5,115,546</u>	<u>\$5,916,205</u>	<u>(\$800,659)</u>

In 2009 the City sold the building previously used as city hall. This resulted in the decrease in buildings.

## CITY OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2009**

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2009	2008	
Land	\$177,511	\$177,511	\$0
Buildings	1,973,207	1,973,207	0
Improvements Other than Buildings	452,160	452,160	0
Machinery and Equipment	1,287,612	1,285,127	2,485
Infrastructure	11,167,067	11,167,067	0
Less: Accumulated Depreciation	(5,653,834)	(5,294,053)	(359,781)
Totals	\$9,403,723	\$9,761,019	(\$357,296)

Additional information on the City's capital assets can be found in Note 8.

### **Debt**

At December 31, 2009, the City had \$3,260,000 in general obligation bonds outstanding, \$180,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2009 and 2008:

	2009	2008
Governmental Activities:		
Ohio Public Works Commission Loan	\$156,000	\$160,000
West Street Bridge Project Loan	276,704	265,000
ODOT Street Improvement Loan	534,705	617,066
Long Term Promissory Note	50,660	53,000
Capital Leases	41,261	150,360
Compensated Absences	141,173	170,031
Total Governmental Activities	1,200,503	1,415,457
Business-Type Activities:		
General Obligation Bonds	3,260,000	3,425,000
Ohio Public Works Commission Loans	779,835	799,462
Ohio Water Development Authority Loans	2,931,036	3,136,904
Compensated Absences	173,430	163,861
Total Business-Type Activities	7,144,301	7,525,227
Totals	\$8,344,804	\$8,940,684

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2009, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.



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

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2009***

***Unaudited***

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### **ECONOMIC FACTORS**

At one time, the City of East Palestine was known for its pottery production with the potteries being the largest employers in the City. Currently the City has only one pottery left. The City has five industrial plants with the remaining businesses being mainly sole-proprietor businesses. A twenty nine (29) housing development is under way on northwest side of town with twenty one (21) lots left. On the northeast side of town a housing development with twenty one (21) lots is underway with eighteen (18) lots left. The second phase of Claybrook condos should be underway in 2010/2011. New business development included a Direct TV Contractor, 1820 House, Robinwood Alpaca Products and many other small businesses. Grand opening was September 2009 for Covington Nursing Home/Assistant Living, currently employees approximately 35 employees and growing in 2010.

The City's 2010 budget is very conservative.

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

### **REQUESTS FOR INFORMATION**

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

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**CITY OF EAST PALESTINE, OHIO**

**Statement of Net Assets**  
**December 31, 2009**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 212,829	\$ 130,616	\$ 343,445
Investments	135,121	0	135,121
Receivables:			
Taxes	710,020	0	710,020
Accounts	89,327	187,186	276,513
Intergovernmental	709,069	0	709,069
Special Assessments	12,904	11,403	24,307
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	7,045	19,405	26,450
Prepaid Items	25,732	7,478	33,210
Capital Assets, Net	5,115,546	9,403,723	14,519,269
<b>Total Assets</b>	<u>7,052,593</u>	<u>9,724,811</u>	<u>16,777,404</u>
<b>Liabilities:</b>			
Accounts Payable	36,615	26,759	63,374
Accrued Wages and Benefits	108,733	39,372	148,105
Intergovernmental Payable	196	0	196
Deferred Revenue	366,906	0	366,906
Accrued Interest Payable	19,662	30,453	50,115
Noncurrent liabilities:			
Due within one year	176,391	462,204	638,595
Due in more than one year	1,024,112	6,682,097	7,706,209
<b>Total Liabilities</b>	<u>1,732,615</u>	<u>7,240,885</u>	<u>8,973,500</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	4,056,217	2,432,852	6,489,069
Restricted For:			
Debt Service	19,038	0	19,038
Other Purposes	3,747,207	0	3,747,207
Unrestricted (Deficit)	(2,502,484)	51,074	(2,451,410)
<b>Total Net Assets</b>	<u>\$ 5,319,978</u>	<u>\$ 2,483,926</u>	<u>\$ 7,803,904</u>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

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**Statement of Activities**  
**For the Year Ended December 31, 2009**

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		Program Revenues	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities:</b>			
Security of Persons and Property	\$ 1,037,370	\$ 274,230	\$ 8,083
Leisure Time Activities	237,620	69,261	0
Community Environment	279,790	0	493,390
Public Health and Welfare	71,081	33,912	0
Transportation	387,943	0	293,201
General Government	1,033,554	70,192	0
Interest and Fiscal Charges	31,556	0	0
<b>Total Governmental Activities</b>	<b>3,078,914</b>	<b>447,595</b>	<b>794,674</b>
<b>Business-Type Activities:</b>			
Water	546,010	504,788	0
Wastewater	951,143	1,072,760	0
<b>Total Business-Type Activities</b>	<b>1,497,153</b>	<b>1,577,548</b>	<b>0</b>
<b>Totals</b>	<b>\$ 4,576,067</b>	<b>\$ 2,025,143</b>	<b>\$ 794,674</b>

**General Revenues**

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

Change in Net Assets

Net Assets Beginning of Year  
 Net Assets End of Year

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (755,057)	\$ 0	\$ (755,057)
(168,359)	0	(168,359)
213,600	0	213,600
(37,169)	0	(37,169)
(94,742)	0	(94,742)
(963,362)	0	(963,362)
(31,556)	0	(31,556)
<u>(1,836,645)</u>	<u>0</u>	<u>(1,836,645)</u>
0	(41,222)	(41,222)
<u>0</u>	<u>121,617</u>	<u>121,617</u>
<u>0</u>	<u>80,395</u>	<u>80,395</u>
<u>(1,836,645)</u>	<u>80,395</u>	<u>(1,756,250)</u>
120,192	0	120,192
312,027	0	312,027
835,691	0	835,691
1,491	0	1,491
176,957	0	176,957
2,548	0	2,548
185,028	0	185,028
<u>1,633,934</u>	<u>0</u>	<u>1,633,934</u>
(202,711)	80,395	(122,316)
<u>5,522,689</u>	<u>2,403,531</u>	<u>7,926,220</u>
<u>\$ 5,319,978</u>	<u>\$ 2,483,926</u>	<u>\$ 7,803,904</u>

**CITY OF EAST PALESTINE, OHIO**

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**Balance Sheet**  
**Governmental Funds**  
**December 31, 2009**

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	<u>General</u>	<u>SCM&amp;R</u>	<u>Electric Trust</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 40,027	\$ 25,092	\$ 16,647
Investments	100,000	0	0
Receivables:			
Taxes	381,319	0	0
Accounts	88,894	0	0
Intergovernmental	61,880	126,700	0
Special Assessments	12,904	0	0
Interfund Loans Receivables	0	0	3,130,637
Inventory of Supplies	0	7,045	0
Prepaid Items	24,904	0	0
<b>Total Assets</b>	<u><u>\$ 709,928</u></u>	<u><u>\$ 158,837</u></u>	<u><u>\$ 3,147,284</u></u>
<b>Liabilities:</b>			
Accounts Payable	\$ 17,427	\$ 5,152	\$ 0
Accrued Wages and Benefits Payable	80,716	13,165	0
Intergovernmental Payable	196	0	0
Interfund Loans Payable	839,770	0	0
Deferred Revenue	254,560	84,467	0
<b>Total Liabilities</b>	<u><u>1,192,669</u></u>	<u><u>102,784</u></u>	<u><u>0</u></u>
<b>Fund Balance:</b>			
Reserved for Encumbrances	29	0	0
Reserved for Prepaid Items	24,904	0	0
Reserved for Supplies Inventory	0	7,045	0
Reserved for Endowments	0	0	0
Undesignated, Unreserved in:			
General Fund	(507,674)	0	0
Special Revenue Funds	0	49,008	3,147,284
Debt Service Fund	0	0	0
Capital Project Funds	0	0	0
<b>Total Fund Balance</b>	<u><u>(482,741)</u></u>	<u><u>56,053</u></u>	<u><u>3,147,284</u></u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 709,928</u></u>	<u><u>\$ 158,837</u></u>	<u><u>\$ 3,147,284</u></u>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

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<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 33,670	\$ 97,393	\$ 212,829
0	35,121	135,121
0	328,701	710,020
0	433	89,327
0	520,489	709,069
0	0	12,904
0	0	3,130,637
0	0	7,045
0	828	25,732
<u>\$ 33,670</u>	<u>\$ 982,965</u>	<u>\$ 5,032,684</u>
\$ 0	\$ 14,036	\$ 36,615
0	14,852	108,733
0	0	196
2,139,136	116,731	3,095,637
0	840,383	1,179,410
<u>2,139,136</u>	<u>986,002</u>	<u>4,420,591</u>
0	12,191	12,220
0	828	25,732
0	0	7,045
0	35,122	35,122
0	0	(507,674)
0	(70,988)	3,125,304
0	19,038	19,038
<u>(2,105,466)</u>	<u>772</u>	<u>(2,104,694)</u>
<u>(2,105,466)</u>	<u>(3,037)</u>	<u>612,093</u>
<u>\$ 33,670</u>	<u>\$ 982,965</u>	<u>\$ 5,032,684</u>

**CITY OF EAST PALESTINE, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2009***

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<b>Total Governmental Fund Balances</b>	\$	612,093
<b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		5,115,546
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		812,504
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(141,173)	
OPWC Loan Payable	(156,000)	
West Street Bridge Project Loan	(276,704)	
ODOT Loan	(534,705)	
Long Term Promissory Note	(50,660)	
Capital Leases	(41,261)	
Accrued Interest Payable	(19,662)	(1,220,165)
		<u>                    </u>
<b><i>Net Assets of Governmental Activities</i></b>	<b>\$</b>	<b><u>5,319,978</u></b>

See accompanying notes to the basic financial statements



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**CITY OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2009**

	<u>General</u>	<u>SCM&amp;R</u>	<u>Electric Trust</u>
<b>Revenues:</b>			
Taxes	\$ 957,661	\$ 0	\$ 0
Intergovernmental Revenues	132,082	259,674	0
Charges for Services	247,619	0	0
Licenses and Permits	77,728	0	0
Investment Earnings	1,001	0	0
Fines and Forfeitures	8,303	0	0
All Other Revenue	145,279	13,904	4,391
<b>Total Revenue</b>	<u>1,569,673</u>	<u>273,578</u>	<u>4,391</u>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	938,378	0	0
Public Health and Welfare	33,814	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Transportation	0	250,647	0
General Government	499,256	0	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	2,340	0	0
Interest & Fiscal Charges	2,856	0	0
<b>Total Expenditures</b>	<u>1,476,644</u>	<u>250,647</u>	<u>0</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	93,029	22,931	4,391
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	74,000	0	0
Bridge Loan	0	0	0
Transfers In	0	0	0
Transfers Out	(85,997)	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>(11,997)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	81,032	22,931	4,391
<b>Fund Balance (Deficit) at Beginning of Year</b>	(563,773)	31,069	3,142,893
Increase in Inventory Reserve	0	2,053	0
<b>Fund Balance (Deficit) End of Year</b>	<u>\$ (482,741)</u>	<u>\$ 56,053</u>	<u>\$ 3,147,284</u>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

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Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 307,139	\$ 1,264,800
0	278,743	670,499
0	112,807	360,426
0	0	77,728
0	1,547	2,548
0	1,138	9,441
4,068	10,497	178,139
4,068	711,871	2,563,581
0	122,256	1,060,634
0	37,685	71,499
0	199,115	199,115
0	279,790	279,790
0	30,595	281,242
0	0	499,256
12,978	111,209	124,187
86,361	265,000	353,701
15,683	11,704	30,243
115,022	1,057,354	2,899,667
(110,954)	(345,483)	(336,086)
54,954	60	129,014
0	276,704	276,704
83,997	2,000	85,997
0	0	(85,997)
138,951	278,764	405,718
27,997	(66,719)	69,632
(2,133,463)	63,682	540,408
0	0	2,053
\$ (2,105,466)	\$ (3,037)	\$ 612,093

**CITY OF EAST PALESTINE, OHIO**

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***Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Fiscal Year Ended December 31, 2009***

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<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$ 69,632</b>
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital Outlay	93,218	
Depreciation Expense	(254,152)	(160,934)
The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.		
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.		(639,725)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		312,622
The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net assets.		
West Street Bridge Project Loan Proceeds		(276,704)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
OPWC Loan Retirement	4,000	
West Street Bridge Project Loan Retirement	265,000	
ODOT Loan Retirement	82,361	
Long Term Promissory Note Retirement	2,340	
Capital Lease Payment	109,099	462,800
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		
		(1,313)
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	28,858	
Change in Inventory	2,053	30,911
<b><i>Change in Net Assets of Governmental Activities</i></b>		<b>\$ (202,711)</b>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2009**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 912,870	\$ 982,020	\$ 958,337	\$ (23,683)
Intergovernmental Revenue	124,707	134,154	134,702	548
Charges for Services	211,444	227,461	248,319	20,858
Licenses and Permits	68,789	74,000	76,675	2,675
Investment Earnings	9,296	10,000	1,001	(8,999)
Fines and Forfeitures	5,578	6,000	8,431	2,431
All Other Revenues	130,451	140,332	146,209	5,877
Total Revenues	<u>1,463,135</u>	<u>1,573,967</u>	<u>1,573,674</u>	<u>(293)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	926,493	985,740	969,718	16,022
Public Health and Welfare	32,648	38,231	35,784	2,447
General Government	538,532	561,357	528,338	33,019
Debt Service:				
Principal Retirement	2,340	2,340	2,340	0
Interest and Fiscal Charges	2,856	2,856	2,856	0
Total Expenditures	<u>1,502,869</u>	<u>1,590,524</u>	<u>1,539,036</u>	<u>51,488</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,734)	(16,557)	34,638	51,195
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	50,000	50,000	50,000	0
Transfers Out	(91,821)	(91,821)	(85,997)	5,824
Total Other Financing Sources (Uses):	<u>(41,821)</u>	<u>(41,821)</u>	<u>(35,997)</u>	<u>5,824</u>
Net Change in Fund Balance	(81,555)	(58,378)	(1,359)	57,019
Fund Balance at Beginning of Year	87,752	87,752	87,752	0
Prior Year Encumbrances	52,851	52,851	52,851	0
Fund Balance at End of Year	<u>\$ 59,048</u>	<u>\$ 82,225</u>	<u>\$ 139,244</u>	<u>\$ 57,019</u>

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

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**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Street Construction, Maintenance and Repair Fund  
For the Year Ended December 31, 2009**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental Revenue	\$ 269,347	\$ 271,270	\$ 253,906	\$ (17,364)
All Other Revenues	4,414	4,446	13,904	9,458
Total Revenues	273,761	275,716	267,810	(7,906)
<b>Expenditures:</b>				
Current:				
Transportation	275,805	277,760	264,245	13,515
Total Expenditures	275,805	277,760	264,245	13,515
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,044)	(2,044)	3,565	5,609
Fund Balance at Beginning of Year	19,926	19,926	19,926	0
Fund Balance at End of Year	\$ 17,882	\$ 17,882	\$ 23,491	\$ 5,609

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

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**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Special Revenue Fund - Electric Trust Fund  
For the Year Ended December 31, 2009**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
All Other Revenues	\$ 0	\$ 4,391	\$ 4,391	\$ 0
Total Revenues	0	4,391	4,391	0
<b>Expenditures:</b>				
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	4,391	4,391	0
Fund Balance at Beginning of Year	12,256	12,256	12,256	0
Fund Balance at End of Year	\$ 12,256	\$ 16,647	\$ 16,647	\$ 0

See accompanying notes to the basic financial statements

**CITY OF EAST PALESTINE, OHIO**

**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2009**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 47,004	\$ 83,612	\$ 130,616
Receivables:			
Accounts	56,893	130,293	187,186
Special Assessments	3,421	7,982	11,403
Inventory of Supplies at Cost	11,963	7,442	19,405
Prepaid Items	2,560	4,918	7,478
Total Current Assets	<u>121,841</u>	<u>234,247</u>	<u>356,088</u>
Noncurrent Assets:			
Capital Assets, Net	<u>1,820,644</u>	<u>7,583,079</u>	<u>9,403,723</u>
Total Noncurrent Assets	<u>1,820,644</u>	<u>7,583,079</u>	<u>9,403,723</u>
Total Assets	<u>1,942,485</u>	<u>7,817,326</u>	<u>9,759,811</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	8,690	18,069	26,759
Accrued Wages and Benefits	19,393	19,979	39,372
Compensated Absences Payable - Current	15,329	10,417	25,746
Accrued Interest Payable	6,476	23,977	30,453
General Obligation Bonds Payable - Current	7,875	172,125	180,000
OWDA Loans Payable - Current	43,182	174,548	217,730
OPWC Loans Payable - Current	3,534	35,194	38,728
Total Current Liabilities	<u>104,479</u>	<u>454,309</u>	<u>558,788</u>
Noncurrent Liabilities:			
General Obligation Bonds Payable	76,815	3,003,185	3,080,000
OWDA Loans Payable	178,523	2,534,783	2,713,306
OPWC Loans Payable	101,894	639,213	741,107
Interfund Loan Payable	10,000	25,000	35,000
Compensated Absences Payable	77,439	70,245	147,684
Total Noncurrent Liabilities	<u>444,671</u>	<u>6,272,426</u>	<u>6,717,097</u>
<b>Total Liabilities</b>	<u>549,150</u>	<u>6,726,735</u>	<u>7,275,885</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,408,821	1,024,031	2,432,852
Unrestricted	(15,486)	66,560	51,074
Total Net Assets	<u>\$ 1,393,335</u>	<u>\$ 1,090,591</u>	<u>\$ 2,483,926</u>

See accompanying notes to the basic financial statements



**CITY OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2009**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>Operating Revenues:</b>			
Charges for Services	\$ 470,480	\$ 1,058,949	\$ 1,529,429
<b>Total Operating Revenues</b>	<u>470,480</u>	<u>1,058,949</u>	<u>1,529,429</u>
<b>Operating Expenses:</b>			
Personal Services	265,611	287,333	552,944
Contractual Services	114,399	160,161	274,560
Materials and Supplies	61,204	19,933	81,137
Depreciation	86,529	273,252	359,781
<b>Total Operating Expenses</b>	<u>527,743</u>	<u>740,679</u>	<u>1,268,422</u>
<b>Operating Income (Loss)</b>	(57,263)	318,270	261,007
<b>Non-Operating Revenue (Expenses):</b>			
Interest and Fiscal Charges	(18,267)	(210,464)	(228,731)
Other Nonoperating Revenue	34,308	13,811	48,119
<b>Total Non-Operating Revenues (Expenses)</b>	<u>16,041</u>	<u>(196,653)</u>	<u>(180,612)</u>
<b>Income (Loss) Before Transfers</b>	(41,222)	121,617	80,395
<b>Transfers:</b>			
Transfers-In	0	16,378	16,378
Transfers-Out	(16,378)	0	(16,378)
<b>Total Transfers</b>	<u>(16,378)</u>	<u>16,378</u>	<u>0</u>
<b>Change in Net Assets</b>	(57,600)	137,995	80,395
<b>Net Assets Beginning of Year - Restated</b>	<u>1,450,935</u>	<u>952,596</u>	<u>2,403,531</u>
<b>Net Assets End of Year</b>	<u>\$ 1,393,335</u>	<u>\$ 1,090,591</u>	<u>\$ 2,483,926</u>

See accompanying notes to the basic financial statements

## CITY OF EAST PALESTINE, OHIO

### Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2009

	Water	Wastewater	Totals
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$508,138	\$1,072,648	\$1,580,786
Cash Payments for Goods and Services	(183,321)	(184,320)	(367,641)
Cash Payments to Employees	(251,969)	(303,452)	(555,421)
Net Cash Provided by Operating Activities	<u>72,848</u>	<u>584,876</u>	<u>657,724</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers In from Other Funds	0	16,378	16,378
Transfers Out to Other Funds	(16,378)	0	(16,378)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(16,378)</u>	<u>16,378</u>	<u>0</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	0	(2,485)	(2,485)
Principal Paid on Ohio Water Development Authority Loan	(43,119)	(172,249)	(215,368)
Proceeds from Ohio Water Development Authority Loan	9,500	0	9,500
Principal Paid on General Obligation Bond	(7,245)	(157,755)	(165,000)
Principal Paid on Ohio Public Works Commission Loan	(3,227)	(17,597)	(20,824)
Proceeds from Ohio Public Works Commission Loan	1,197	0	1,197
Interest Paid on All Debt	(19,751)	(212,149)	(231,900)
Net Cash Used by Capital and Related Financing Activities	<u>(62,645)</u>	<u>(562,235)</u>	<u>(624,880)</u>
Increase (Decrease) in Cash and Cash Equivalents	(6,175)	39,019	32,844
Cash and Cash Equivalents at Beginning of Year	53,179	44,593	97,772
Cash and Cash Equivalents at End of Year	<u>\$47,004</u>	<u>\$83,612</u>	<u>\$130,616</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>			
Operating Income (Loss)	(\$57,263)	\$318,270	\$261,007
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	86,529	273,252	359,781
Miscellaneous Nonoperating Revenue	37,656	13,811	51,467
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	1,514	3,415	4,929
Increase in Special Assessment Receivable	(1,512)	(3,527)	(5,039)
Increase in Inventory	(1,249)	(3,394)	(4,643)
Increase in Prepaid Items	(911)	(881)	(1,792)
Decrease in Accounts Payable	(5,583)	(1)	(5,584)
Decrease in Accrued Wages and Benefits	(1,802)	(10,169)	(11,971)
Increase (Decrease) in Compensated Absences	15,469	(5,900)	9,569
Total Adjustments	<u>130,111</u>	<u>266,606</u>	<u>396,717</u>
Net Cash Provided by Operating Activities	<u>\$72,848</u>	<u>\$584,876</u>	<u>\$657,724</u>

See accompanying notes to the basic financial statements

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Reporting Entity**

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

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

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

##### **B. Basis of Presentation - Fund Accounting**

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

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

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

## *CITY OF EAST PALESTINE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2009*

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

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

Street Construction, Maintenance and Repair Fund - This fund accounts for state-levied and controlled gasoline tax and motor vehicle registration fees designated for street maintenance and repair.

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

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

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

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

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

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

##### **C. Basis of Presentation - Financial Statements**

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

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

##### **C. Basis of Presentation – Financial Statements** (Continued)

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

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

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

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

##### **D. Basis of Accounting**

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

##### **D. Basis of Accounting (Continued)**

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

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

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

Property taxes measurable as of December 31, 2009 but which are not intended to finance 2009 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

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

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

##### **E. Budgetary Process**

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

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

##### **1. Tax Budget**

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

##### **2. Estimated Resources**

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2009.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

##### **E. Budgetary Process** (Continued)

##### **3. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. During 2009, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General and Major Special Revenue Funds" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

##### **4. Encumbrances**

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

##### **5. Lapsing of Appropriations**

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

##### **6. Budgetary Basis of Accounting**

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



**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

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

**E. Budgetary Process (Continued)**

**6. Budgetary Basis of Accounting (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General and Major Special Revenue funds:

	Net Change in Fund Balances		
	General Fund	SCM&R Fund	Electric Trust Fund
GAAP Basis (as reported)	\$81,032	\$22,931	\$4,391
Increase (Decrease):			
Accrued Revenues at December 31, 2009 received during 2010	(290,437)	(42,233)	0
Accrued Revenues at December 31, 2008 received during 2009	270,438	36,465	0
Accrued Expenditures at December 31, 2009 paid during 2010	98,339	18,317	0
Accrued Expenditures at December 31, 2008 paid during 2009	(158,901)	(30,314)	0
2008 Prepays for 2009	23,857	0	0
2009 Prepays for 2010	(24,904)	0	0
Outstanding Encumbrances	(783)	(1,601)	0
Budget Basis	(\$1,359)	\$3,565	\$4,391

**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 City pools a majority of its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' shares of equity in pooled repurchase agreements and certificates of deposit are considered to be cash equivalents. See Note 3, "Cash, Cash Equivalents and Investments."

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

##### **G. Investments**

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

The City has invested funds in the STAR Ohio during 2009. 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, 2009. See Note 3, "Cash, Cash Equivalents and Investments."

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

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

##### **I. Capital Assets and Depreciation**

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

###### **1. Property, Plant and Equipment - Governmental Activities**

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

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

**CITY OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009***

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**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 Assets and in the respective funds.

3. Depreciation

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

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

**CITY OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009***

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**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 Bond	Water Fund, Wastewater Fund
Ohio Public Works Commission Loan	Capital Improvement Fund Water Fund, Wastewater Fund
Compensated Absences	General Fund Street Construction, Maintenance and Repair Fund Water Fund, Wastewater Fund
West Street Bridget Project Loan	Bridge Fund
Ohio Department of Transportation Loan	Capital Improvement Fund
Long Term Promissory Note	General Fund
Capital Leases	General Fund, Capital Improvement 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.

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.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

##### **K. Compensated Absences** (Continued)

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

##### **L. Net Assets**

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

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

##### **M. Pensions**

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

##### **N. Interfund Activity**

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

##### **O. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, endowments and encumbered amounts which have not been accrued at year end.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **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 City, these revenues are charges for services for water treatment and distribution and wastewater collection and treatment. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items to report during fiscal year 2009.

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

**Fund Deficits** - The fund deficits at December 31, 2009 of \$482,741 in the General Fund, \$5,126 in the Parks and Recreation Fund, \$1,664 in the State Highway Fund, \$1,563 in the Community Development Block Grant Fund, \$87,046 in the Downtown Revitalization Fund (special revenue funds), \$29,685 in the Bridge Fund and \$2,105,466 in the Capital Improvement Fund (capital projects funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The general fund provides transfers when cash is required, not when accruals occur.

#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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

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).

#### **A. Deposits**

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

**CITY OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009***

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

**A. Deposits** (Continued)

At year end the carrying amount of the City's deposits was \$377,606 and the bank balance was \$378,223. Federal depository insurance covered the entire bank balance.

Investment earnings of \$685 earned by other funds were credited to the General Fund as required by state statute.

**B. Investments**

The City's investments at December 31, 2009 are summarized below:

	<u>Fair Value</u>	Credit Rating	<u>Investment Maturities (in Years)</u>		
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>
STAR Ohio	<u>\$100,960</u>	AAAm <sup>1</sup>	<u>\$100,960</u>	<u>\$0</u>	<u>\$0</u>
Total Investments	<u><u>\$100,960</u></u>		<u><u>\$100,960</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

<sup>1</sup> Standard & Poor's

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

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**CITY OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

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

**C. Reconciliation of Cash, Cash Equivalents and Investments**

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

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$343,445	\$135,121
Certificates of Deposit (with maturities of more than 3 months)	135,121	(135,121)
Investments:		
STAR Ohio	(100,960)	100,960
Per GASB Statement No. 3	<u>\$377,606</u>	<u>\$100,960</u>

**NOTE 4 - PROPERTY TAXES**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2009 were levied after October 1, 2008 on assessed values as of January 1, 2008 the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2004. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. In prior years, tangible personal property used in business (except for public utilities) was assessed for ad valorem taxation purposes at 25 percent of its true value. As part of a phase out of the personal property tax, the assessment percentage for personal property was reduced to zero in 2009. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30; the remainder is payable by September 20.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 4 - PROPERTY TAXES (Continued)**

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

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

The full property tax rate for all City operations for the year ended December 31, 2009 was \$8.90 per \$1,000 of assessed value. The assessed value upon which the 2009 tax receipts were based was \$61,349,280. This amount constitutes \$58,986,810 in real property assessed value and \$2,362,470 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 City's share is .89% (8.9 mills) of assessed value.

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

#### **NOTE 5 - RECEIVABLES**

Receivables at December 31, 2009 consisted of taxes, accounts receivable, special assessments receivable, interfund receivables and intergovernmental receivables.

**CITY OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

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**NOTE 6 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2009:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$85,997
Capital Improvement Fund	83,997	0
Other Governmental Funds	2,000	0
Total Governmental Funds	85,997	85,997
Water Fund	0	16,378
Wastewater Fund	16,378	0
Total Proprietary Funds	16,378	16,378
Totals	<u>\$102,375</u>	<u>\$102,375</u>

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of interfund loans receivable and payable for all funds for 2009:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$0	\$839,770
Electric Trust Fund	3,130,637	0
Capital Improvement Fund	0	2,139,136
Other Governmental Funds	0	116,731
Total Governmental Funds	3,130,637	3,095,637
Water Fund	0	10,000
Wastewater Fund	0	25,000
Total Proprietary Funds	0	35,000
Totals	<u>\$3,130,637</u>	<u>\$3,130,637</u>

**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2009:

***Historical Cost:***

Class	December 31, 2008	Additions	Deletions	December 31, 2009
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$298,749	\$8,880	(\$40,955)	\$266,674
Subtotal	<u>298,749</u>	<u>8,880</u>	<u>(40,955)</u>	<u>266,674</u>
<b><i>Capital assets being depreciated:</i></b>				
Buildings	1,900,488	0	(922,034)	978,454
Improvements Other than Buildings	131,640	48,355	0	179,995
Machinery and Equipment	2,621,534	44,863	(46,830)	2,619,567
Infrastructure	3,543,635	0	(9,005)	3,534,630
Subtotal	<u>8,197,297</u>	<u>93,218</u>	<u>(977,869)</u>	<u>7,312,646</u>
Total Cost	<u>\$8,496,046</u>	<u>\$102,098</u>	<u>(\$1,018,824)</u>	<u>\$7,579,320</u>

***Accumulated Depreciation:***

Class	December 31, 2008	Additions	Deletions	December 31, 2009
Buildings	(\$678,283)	(\$21,259)	\$340,990	(\$358,552)
Improvements Other than Buildings	(44,574)	(7,013)	0	(51,587)
Machinery and Equipment	(1,684,882)	(123,308)	19,549	(1,788,641)
Infrastructure	(172,102)	(102,572)	9,680	(264,994)
Total Depreciation	<u>(\$2,579,841)</u>	<u>(\$254,152) *</u>	<u>\$370,219</u>	<u>(\$2,463,774)</u>
<b><i>Net Value:</i></b>	<u>\$5,916,205</u>			<u>\$5,115,546</u>

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

Security of Persons and Property	\$96,940
Leisure Time Activities	33,473
Transportation	113,484
General Government	<u>10,255</u>
Total Depreciation Expense	<u>\$254,152</u>

**CITY OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

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

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

Summary by Category at December 31, 2009:

***Historical Cost:***

Class	December 31, 2008	Additions	Deletions	December 31, 2009
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$177,511	\$0	\$0	\$177,511
Subtotal	177,511	0	0	177,511
<b><i>Capital assets being depreciated:</i></b>				
Buildings	1,973,207	0	0	1,973,207
Improvements Other than Buildings	452,160	0	0	452,160
Machinery and Equipment	1,285,127	2,485	0	1,287,612
Infrastructure	11,167,067	0	0	11,167,067
Subtotal	14,877,561	2,485	0	14,880,046
Total Cost	\$15,055,072	\$2,485	\$0	\$15,057,557

***Accumulated Depreciation:***

Class	December 31, 2008	Additions	Deletions	December 31, 2009
Buildings	(\$1,232,405)	(\$49,330)	\$0	(\$1,281,735)
Improvements Other than Buildings	(271,043)	(8,881)	0	(279,924)
Machinery and Equipment	(1,197,677)	(57,884)	0	(1,255,561)
Infrastructure	(2,592,928)	(243,686)	0	(2,836,614)
Total Depreciation	(\$5,294,053)	(\$359,781)	\$0	(\$5,653,834)
<b><i>Net Value:</i></b>	<u>\$9,761,019</u>			<u>\$9,403,723</u>

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS**

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

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

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

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

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

The ORC provides statutory authority for employee and employer contributions. For 2009, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2009 employer contribution rate for local government employer units was 14.00%, of covered payroll which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the City's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2009, from January 1 through March 31, 2009 7.0% of annual covered salary was the portion used to fund pension obligations, and from April 1 through December 31, 2009 8.5% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and the City are established and may be amended by the OPERS Board. The City's required contributions for pension obligations to OPERS for the years ending December 31, 2009, 2008, and 2007 were \$76,864, \$71,544 and \$86,281, respectively, which were equal to the required contributions for each year.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

All City full-time police officers and full-time firefighters participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2009, 12.75% of annual covered salary for police and 17.25% of annual covered salary for firefighters, respectively, were the portions used to fund pension obligations. The City’s contributions for pension obligations to the OP&F Fund for the years ending December 31, 2009, 2008, and 2007 were \$36,100, \$36,716 and \$36,989 for police and \$9,418, \$8,907 and \$8,769 for firefighters, respectively, which were equal to the required contributions for each year.

#### **NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 10 - 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 making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

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 2009, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. For 2009, the employer contribution allocated to the health care plan was 7.0% of covered payroll from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OPERS for the years ending December 31, 2009, 2008, and 2007 were \$55,579 \$71,544 and \$57,079, respectively, which were equal to the required contributions for each year.

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

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

Plan Description – The City 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.



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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)**

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2009, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2009, 2008, and 2007 were \$19,112, \$19,438 and \$19,583 for police and \$3,685, \$3,485 and \$3,431 for firefighters, respectively, which were equal to the required contributions for each year.

**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

**NOTE 11 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 2009 were as follows:

		Balance December 31, 2008	Additions	Deductions	Balance December 31, 2009	Amount Due Within One Year
<b>Governmental Activities:</b>						
Ohio Public Works Commission Loan:						
Bridge Replacement	2005	\$160,000	\$0	(\$4,000)	\$156,000	\$8,000
West Street Bridge Project Loan	2005	265,000	0	(265,000)	0	0
West Street Bridge Project Loan	2009	0	276,704	0	276,704	11,912
Ohio Department of Transportation Street Improvement Loan	2005	617,066	0	(82,361)	534,705	82,617
Long Term Promissory Note City Hall Building	2008	53,000	0	(2,340)	50,660	2,472
Capital Leases		150,360	0	(109,099)	41,261	36,992
Compensated Absences Payable		170,031	141,173	(170,031)	141,173	34,398
Total Governmental Activities		<u>1,415,457</u>	<u>417,877</u>	<u>(62,831)</u>	<u>1,200,503</u>	<u>176,391</u>
<b>Business-Type Activities:</b>						
General Obligation Bonds:						
Various Purpose Bond	1999	1,465,000	0	(115,000)	1,350,000	125,000
Sewerage System Refunding Bond	2003	1,960,000	0	(50,000)	1,910,000	55,000
Total General Obligation Bonds:		<u>3,425,000</u>	<u>0</u>	<u>(165,000)</u>	<u>3,260,000</u>	<u>180,000</u>
Ohio Public Works Commission Loan:						
Waterline Improvement	2000	1,460	0	(1,460)	0	0
Phase Five Sanitary Sewer	2005	444,675	0	(13,475)	431,200	26,950
Brookdale Water and Sewer	2007	353,327	0	(5,889)	347,438	11,778
Water Booster	2009	0	1,197	0	1,197	0
Total OPWC Loans:		<u>799,462</u>	<u>1,197</u>	<u>(20,824)</u>	<u>779,835</u>	<u>38,728</u>
Ohio Water Development Authority Loans:						
Water Treatment Plant	1992	166,096	0	(41,525)	124,571	41,525
Sewer Project - Phase Two	1999	776,607	0	(60,045)	716,562	61,373
Wastewater Treatment Plant	2004	2,045,646	0	(111,144)	1,934,502	112,073
Waterline Extension	2007	89,228	0	(1,594)	87,634	1,657
Sewer Line Extension	2007	59,327	0	(1,060)	58,267	1,102
Jintown Reservoir	2009	0	9,500	0	9,500	0
Total OWDA Loans:		<u>3,136,904</u>	<u>9,500</u>	<u>(215,368)</u>	<u>2,931,036</u>	<u>217,730</u>
Compensated Absences		<u>163,861</u>	<u>173,430</u>	<u>(163,861)</u>	<u>173,430</u>	<u>25,746</u>
Total Business-Type Activities		<u>7,525,227</u>	<u>184,127</u>	<u>(565,053)</u>	<u>7,144,301</u>	<u>462,204</u>
Totals		<u>\$8,940,684</u>	<u>\$602,004</u>	<u>(\$1,197,884)</u>	<u>\$8,344,804</u>	<u>\$638,595</u>

**CITY OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

**NOTE 11 - LONG-TERM OBLIGATIONS (Continued)**

**A. Principal and Interest Requirements**

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2009 follows:

<b>Governmental Activities</b>								
Years	OPWC Loan		West Street Bridge Loan		ODOT Loan		Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$8,000	\$0	\$11,912	\$15,219	\$82,617	\$15,427	\$2,472	\$2,725
2011	8,000	0	12,567	14,564	85,114	12,929	2,611	2,586
2012	8,000	0	13,258	13,872	87,687	10,357	2,759	2,438
2013	8,000	0	13,988	13,143	90,338	7,706	42,818	2,280
2014	8,000	0	224,979	12,374	93,068	4,975	0	0
2015-2019	40,000	0	0	0	95,881	2,162	0	0
2020-2024	40,000	0	0	0	0	0	0	0
2025-2029	36,000	0	0	0	0	0	0	0
2030-2038	0	0	0	0	0	0	0	0
<b>Totals</b>	<b>\$156,000</b>	<b>\$0</b>	<b>\$276,704</b>	<b>\$69,172</b>	<b>\$534,705</b>	<b>\$53,556</b>	<b>\$50,660</b>	<b>\$10,029</b>

<b>Business-Type Activities</b>								
Years	General Obligation Bonds		OWDA Loans		OPWC Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$180,000	\$170,480	\$217,730	\$48,951	\$38,728	\$0	\$541,459	\$252,802
2011	185,000	161,755	220,320	43,453	38,728	0	552,340	235,287
2012	195,000	152,780	222,958	37,907	38,728	0	568,390	217,354
2013	200,000	143,330	184,118	32,320	38,728	0	577,990	198,779
2014	215,000	133,630	186,850	19,772	38,728	0	766,625	170,751
2015-2019	1,035,000	531,526	976,950	105,230	193,640	0	2,341,471	638,918
2020-2024	475,000	340,177	691,766	44,802	193,640	0	1,400,406	384,979
2025-2029	630,000	153,671	157,029	16,587	85,840	0	908,869	170,258
2030-2038	145,000	8,410	73,315	12,639	113,075	0	331,390	21,049
<b>Totals</b>	<b>\$3,260,000</b>	<b>\$1,795,759</b>	<b>\$2,931,036</b>	<b>\$361,661</b>	<b>\$779,835</b>	<b>\$0</b>	<b>\$7,988,940</b>	<b>\$2,290,177</b>

**CITY OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009***

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**NOTE 11 - LONG-TERM OBLIGATIONS (Continued)**

**B. Defeased Debt**

In February 2003, the City defeased \$2,236,000 of FHA Loans for Sewer Improvements through the issuance of \$2,235,000 of General Obligation Bonds for Sewer System Improvements. The net proceeds of the 2003 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,966,000 at December 31, 2009, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding. The refunding was undertaken to reduce total debt service payments over the next 26 years by \$363,369 and resulted in an economic gain of \$205,434. The acquisition price exceeded the net carrying amount of the old debt by \$30,054.

**NOTE 12 - CAPITAL LEASES**

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

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2009:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2010	\$38,953
2011	<u>5,200</u>
Minimum Lease Payments	<u>44,153</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(2,892)</u>
Present value of minimum lease payments	<u><u>\$41,261</u></u>

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2009***

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#### **NOTE 13 - INSURANCE AND RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City is a participant in the Public Entities Pool of Ohio (the "Pool"). The Pool was established in 1987 and is administered under contract by American Risk Pooling Consultants Inc. to provide a program of property and casualty insurance for its member organizations throughout the State of Ohio.

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

The City of East Palestine obtained insurance coverage from the Pool for the years 2009 through 2010 for losses related to general liability, public officials liability, automobile, law enforcement liability, medical malpractice liability, and employee benefits liability.

Each participant makes an annual "contribution" to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a "surplus contribution" that is used to build the Pool's retained earning account to fund the activities of the Pool. During 2009, the City of East Palestine made contributions to the Pool totaling \$63,198.

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

Treaty basis casualty excess of loss contracts in force at December 31, 2009 generally protect the Pool against individual losses over \$250,000.

Losses exceeding \$250,000 are reinsured with American Public Entity Excess Pool (APEEP) in an amount not to exceed \$1,750,000 per claim and \$10,000,000 in aggregate per year.

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

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

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

**CITY OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**

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**NOTE 14 - CONTINGENCIES**

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

**NOTE 15 - CONSTRUCTION COMMITMENTS**

The City had the following contractual commitments at December 31, 2009:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Berquist Reservoir	\$18,500	2011
Howell/Stacey Booster Station	267,893	2011
Phosphorus Reduction Project	57,728	2010
Wheathill Reservoir	26,704	2011

**NOTE 16 – RESTATEMENT OF NET ASSETS**

Certain adjustments were made to the Enterprise Fund and Business Type Activities net asset beginning balance due to errors in accounting for Ohio Water Development Authority Loans Payable. This reclassification had the following effect on beginning of year net assets:

<u>Net Assets</u>	<u>Total Business Type Activities</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>
Reported December 31, 2008	\$2,403,531	\$1,309,604	\$1,093,927
OWDA Loan	0	141,331	(141,331)
Restated December 31, 2008	<u>\$2,403,531</u>	<u>\$1,450,935</u>	<u>\$952,596</u>

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

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

City of East Palestine  
Columbiana County  
144 North Market Street  
East Palestine, Ohio 44413

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palestine as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of East Palestine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standard*. We noted certain immaterial instances of noncompliance, which we have reported to management of City of East Palestine in a separate letter dated June 4, 2010.

This report is intended for the information of the Mayor, City Council, management, Auditor of State, federal award agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
June 4, 2010





Mary Taylor, CPA  
Auditor of State

CITY OF EAST PALESTINE

COLUMBIANA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JULY 15, 2010