



Dave Yost • Auditor of State



**VILLAGE OF EAST PALESTINE  
COLUMBIANA COUNTY  
DECEMBER 31, 2017**

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COLUMBIANA COUNTY  
DECEMBER 31, 2017

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County, Ohio (the Village), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 6, 2018

## VILLAGE OF EAST PALESTINE, OHIO

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### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

*Unaudited*

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The discussion and analysis of the Village of East Palestine's financial performance provides an overall review of the Village's financial activities for the fiscal year ended December 31, 2017. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2017 are as follows:

- ❑ In total, net position decreased \$92,982. Net position of governmental activities increased \$464,798, which represents a 7% change from 2016. Net position of business-type activities decreased \$557,780 or 12% from 2016.
- ❑ General revenues accounted for \$1,968,622 in revenue or 38% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,167,595, 62% of total revenues of \$5,136,217.
- ❑ The Village had \$2,854,259 in expenses related to governmental activities; only \$1,330,435 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,968,622 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,679,938 in revenues and \$1,498,951 in expenditures. The general fund's fund balance increased \$103,934 to a balance of \$2,776,830.

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

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

These statements are as follows:

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

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

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

# VILLAGE OF EAST PALESTINE, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2017*

*Unaudited*

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## **Government-wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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



## VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

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

### FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The following table provides a summary of the Village's net position for 2017 compared to 2016.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$2,668,532	\$2,652,161	\$1,108,910	\$1,122,694	\$3,777,442	\$3,774,855
Capital Assets, Net	7,393,547	6,455,283	8,985,087	9,168,132	16,378,634	15,623,415
Total Assets	<u>10,062,079</u>	<u>9,107,444</u>	<u>10,093,997</u>	<u>10,290,826</u>	<u>20,156,076</u>	<u>19,398,270</u>
Deferred Outflows of Resources	661,492	557,219	291,575	213,151	953,067	770,370
Net Pension Liability	2,189,723	1,855,520	763,115	561,716	2,952,838	2,417,236
Other Long-term Liabilities	1,016,889	737,749	5,455,910	5,209,462	6,472,799	5,947,211
Other Liabilities	95,595	103,553	73,105	75,266	168,700	178,819
Total Liabilities	<u>3,302,207</u>	<u>2,696,822</u>	<u>6,292,130</u>	<u>5,846,444</u>	<u>9,594,337</u>	<u>8,543,266</u>
Deferred Inflows of Resources	694,002	705,277	4,543	10,854	698,545	716,131
Net Position						
Net Investment in Capital Assets	6,492,369	5,822,602	4,336,317	4,056,339	10,828,686	9,878,941
Restricted	717,405	832,719	0	0	717,405	832,719
Unrestricted (Deficit)	(482,412)	(392,757)	(247,418)	590,340	(729,830)	197,583
Total Net Position	<u>\$6,727,362</u>	<u>\$6,262,564</u>	<u>\$4,088,899</u>	<u>\$4,646,679</u>	<u>\$10,816,261</u>	<u>\$10,909,243</u>

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

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

## ***VILLAGE OF EAST PALESTINE, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

***Unaudited***

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

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

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

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

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

## VILLAGE OF EAST PALESTINE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2017

*Unaudited*

Changes in Net Position – The following table shows the changes in net position for 2017 compared to 2016:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services and Sales	\$470,314	\$395,254	\$1,837,160	\$1,770,573	\$2,307,474	\$2,165,827
Operating Grants and Contributions	360,121	335,089	0	0	360,121	335,089
Capital Grants and Contributions	500,000	299,807	0	74,300	500,000	374,107
Total Program Revenues	<u>1,330,435</u>	<u>1,030,150</u>	<u>1,837,160</u>	<u>1,844,873</u>	<u>3,167,595</u>	<u>2,875,023</u>
General Revenues:						
Property Taxes	664,734	718,596	0	0	664,734	718,596
Income Taxes	1,012,054	1,098,355	0	0	1,012,054	1,098,355
Other Local Taxes	618	1,262	0	0	618	1,262
Intergovernmental Revenues, Unrestricted	165,749	167,766	0	0	165,749	167,766
Investment Earnings	14,298	6,465	0	0	14,298	6,465
Miscellaneous	111,169	97,133	0	0	111,169	97,133
Total General Revenues	<u>1,968,622</u>	<u>2,089,577</u>	<u>0</u>	<u>0</u>	<u>1,968,622</u>	<u>2,089,577</u>
Total Revenues	<u>3,299,057</u>	<u>3,119,727</u>	<u>1,837,160</u>	<u>1,844,873</u>	<u>5,136,217</u>	<u>4,964,600</u>
Program Expenses						
Security of Persons and Property	1,385,490	1,277,450	0	0	1,385,490	1,277,450
Leisure Time Activities	254,987	251,254	0	0	254,987	251,254
Public Health and Welfare	37,599	33,451	0	0	37,599	33,451
Transportation	574,834	544,735	0	0	574,834	544,735
General Government	576,852	778,929	0	0	576,852	778,929
Interest and Fiscal Charges	24,497	19,756	0	0	24,497	19,756
Water	0	0	1,081,755	634,914	1,081,755	634,914
Wastewater	0	0	1,293,185	869,130	1,293,185	869,130
Total Expenses	<u>2,854,259</u>	<u>2,905,575</u>	<u>2,374,940</u>	<u>1,504,044</u>	<u>5,229,199</u>	<u>4,409,619</u>
Change in Net Position Before Transfers	444,798	214,152	(537,780)	340,829	(92,982)	554,981
Transfers	20,000	0	(20,000)	0	0	0
Total Change in Net Position	464,798	214,152	(557,780)	340,829	(92,982)	554,981
Beginning Net Position	6,262,564	6,048,412	4,646,679	4,305,850	10,909,243	10,354,262
Ending Net Position	<u>\$6,727,362</u>	<u>\$6,262,564</u>	<u>\$4,088,899</u>	<u>\$4,646,679</u>	<u>\$10,816,261</u>	<u>\$10,909,243</u>

### **Governmental Activities**

Net position of the Village's governmental activities increased \$464,798, or 7% from the previous year. An increase in charges for services can be attributed to emergency medical service revenues. Overall, expenses remained stable when compared with the prior year. An increase in security of persons and property can be attributed to police and fire wages and benefits, including severance payouts. In 2016, the Village disposed of a large amount of capital assets, resulting in an increase in general government expense in the prior year and a subsequent decrease in 2017.

## VILLAGE OF EAST PALESTINE, OHIO

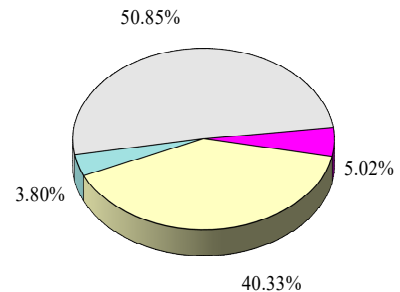
**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

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

Income taxes and property taxes made up 31% and 20% respectively of revenues for governmental activities in 2017. The Village's reliance upon tax revenues is demonstrated by the following graph indicating 51% of total revenues from general tax revenues:

Revenue Sources	2017	Percent of Total
General Tax Revenues	\$1,677,406	50.85%
Intergovernmental Revenues, Unrestricted	165,749	5.02%
Program Revenues	1,330,435	40.33%
General Other	125,467	3.80%
Total Revenue	<u>\$3,299,057</u>	<u>100.00%</u>



### **Business-Type Activities**

Net position of the business-type activities decreased \$557,780. This was a 12% decrease from the previous year. Revenues remained consistent with the prior year. A substantial increase in expenses was the result of meter replacements for all residents.

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

The Village's governmental funds reported a combined fund balance of \$1,205,815, which is an increase from last year's balance of \$1,185,651. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2017 and 2016:

	Fund Balance/Deficit December 31, 2017	Fund Balance/Deficit December 31, 2016	Increase (Decrease)
General	\$2,776,830	\$2,672,896	\$103,934
Street Construction, Maintenance and Repair	106,950	123,755	(16,805)
Capital Improvement	(2,097,943)	(2,111,531)	13,588
Street Levy Capital Replacement	41,118	61,963	(20,845)
Other Governmental	378,860	438,568	(59,708)
Total	<u>\$1,205,815</u>	<u>\$1,185,651</u>	<u>\$20,164</u>

## **VILLAGE OF EAST PALESTINE, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

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

	2017 Revenues	2016 Revenues	Increase (Decrease)
Taxes	\$1,092,516	\$1,154,552	(\$62,036)
Intergovernmental Revenues	118,335	91,265	27,070
Charges for Services	266,025	171,520	94,505
Licenses and Permits	79,300	75,697	3,603
Investment Earnings	14,133	6,169	7,964
Fines and Forfeitures	8,440	10,971	(2,531)
All Other Revenue	101,189	84,391	16,798
Total	<u>\$1,679,938</u>	<u>\$1,594,565</u>	<u>\$85,373</u>

General Fund revenues increased \$85,373, or approximately 5% from the prior year. An increase in charges for services can be attributed to emergency medical service revenues.

	2017 Expenditures	2016 Expenditures	Increase (Decrease)
Current:			
Security of Persons and Property	\$1,017,087	\$920,813	\$96,274
General Government	458,805	523,503	(64,698)
Debt Service:			
Principal Retirement	14,701	6,000	8,701
Interest and Fiscal Charges	8,358	7,030	1,328
Total	<u>\$1,498,951</u>	<u>\$1,457,346</u>	<u>\$41,605</u>

General Fund expenditures increased \$41,605, or 3% from 2016. An increase in security of persons and property can be attributed to police and fire wages and benefits, including severance payouts. LED light improvements made in 2016 resulted in a subsequent decrease in general government in 2017.

*Street Construction, Maintenance and Repair Fund* – The Street Construction, Maintenance and Repair Fund balance decreased \$16,805, or 14%. A decrease in revenues was the result of a \$250,000 Community Development Block Grant for replacement of the Sumner Street Bridge received in the prior year. Expenditures remained stable.

*Capital Improvement Fund* - The Capital Improvement Fund balance changed less than 1% to a deficit fund balance of \$2,097,943. An interfund loan payable to the General Fund is the primary factor contributing to this fund's large negative fund balance.

*Street Levy Capital Replacement Fund* - The Street Levy Capital Replacement Fund reported a decrease in fund balance of \$20,845. This fund reported a \$500,000 grant for state route 170 repaving.

## **VILLAGE OF EAST PALESTINE, OHIO**

### ***Management's Discussion and Analysis For the Year Ended December 31, 2017***

***Unaudited***

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

During the course of fiscal year 2017 the Village amended its General Fund budget several times.

For the General Fund, budget basis revenue of \$1,635,697 was not significantly different from original or final budget estimates. Budget basis expenditures of \$1,616,576 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 2017 the Village had \$16,378,634 net of accumulated depreciation invested in land, construction in progress, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$7,393,547 was related to governmental activities and \$8,985,087 to the business-type activities. The following tables show fiscal year 2017 and 2016 balances:

	Governmental Activities		Increase (Decrease)
	2017	2016	
Land	\$295,074	\$295,074	\$0
Buildings	798,984	798,984	0
Improvements Other than Buildings	196,328	196,328	0
Machinery and Equipment	3,674,180	3,111,282	562,898
Infrastructure	6,830,773	6,072,897	757,876
Less: Accumulated Depreciation	(4,401,792)	(4,019,282)	(382,510)
Totals	<u>\$7,393,547</u>	<u>\$6,455,283</u>	<u>\$938,264</u>

Additions to machinery and equipment can be attributed to equipment and vehicle purchases in the police, fire, parks, and street departments. This included the acquisition of a fire tanker truck and street sweeper. The increase in infrastructure can be attributed to routine street maintenance as well as repaving of approximately 6 miles of state route 170.

## **VILLAGE OF EAST PALESTINE, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2017	2016	
Land	\$177,511	\$177,511	\$0
Construction in Progress	210,708	130,874	79,834
Buildings	2,079,874	2,079,874	0
Improvements Other than Buildings	1,581,627	1,581,627	0
Machinery and Equipment	1,548,787	1,490,718	58,069
Infrastructure	11,506,564	11,506,564	0
Less: Accumulated Depreciation	(8,119,984)	(7,799,036)	(320,948)
Totals	\$8,985,087	\$9,168,132	(\$183,045)

Business-Type capital asset additions to machinery and equipment included a skid loader, trailer, and concrete breaker. Construction in progress consisted of a water treatment plant pump house project and a wastewater treatment plant improvement project. Additional information on the Village's capital assets can be found in Note 10.

### **Debt**

At December 31, 2017, the Village had \$1,955,000 in general obligation bonds outstanding, \$275,000 due within one year. The following table summarizes the Village's long-term obligations outstanding as of December 31, 2017 and 2016:

	2017	2016
Governmental Activities:		
Ohio Public Works Commission Loan	\$92,000	\$100,000
General Obligation Bonds	340,000	355,000
Long Term Promissory Notes	176,000	1,954
Capital Leases	293,178	175,727
Net Pension Liability	2,189,723	1,855,520
Compensated Absences	115,711	105,068
Total Governmental Activities	3,206,612	2,593,269
Business-Type Activities:		
General Obligation Bonds	1,615,000	1,870,000
Ohio Public Works Commission Loans	667,214	718,342
Ohio Water Development Authority Loans	2,342,892	2,488,443
Capital Leases	718,664	35,008
Net Pension Liability	763,115	561,716
Compensated Absences	112,140	97,669
Total Business-Type Activities	6,219,025	5,771,178
Totals	\$9,425,637	\$8,364,447

Under current state statutes, the Village's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2017, the Village's outstanding debt was below the legal limit. Additional information on the Village's long-term debt can be found in Note 13.

## ***VILLAGE OF EAST PALESTINE, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

***Unaudited***

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### **ECONOMIC FACTORS**

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

The residents of East Palestine passed a 5 mill street levy in 2010; with collections starting in 2011 estimated collection is \$296,100.00. Currently in 2017 we repaved East & West Grant St, N. Walnut St, Adams St, Sumner St, Liberty St, West Ave, Rebecca St and Ashley Lane. We are continuing to look at future paving projects in and 2018 using the Street Levy monies. The Street Levy was renewed for 5 more years.

The Village of East Palestine had four (4) new businesses open up in 2017.

We are working on some water and waste water improvements at water and waste water plants.

The Village's 2018 budget is very conservative.

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

### **REQUESTS FOR INFORMATION**

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



**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Net Position**  
**December 31, 2017**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 825,162	\$ 789,600	\$ 1,614,762
Investments	133,850	0	133,850
Receivables:			
Taxes	1,335,983	0	1,335,983
Accounts	77,573	277,752	355,325
Intergovernmental	232,803	180	232,983
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	4,216	63,411	67,627
Prepaid Items	23,945	12,967	36,912
Non-Depreciable Capital Assets	295,074	388,219	683,293
Depreciable Capital Assets, Net	7,098,473	8,596,868	15,695,341
<b>Total Assets</b>	<b>10,062,079</b>	<b>10,093,997</b>	<b>20,156,076</b>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	420,096	291,575	711,671
OP&F	241,396	0	241,396
<b>Total Deferred Outflows of Resources</b>	<b>661,492</b>	<b>291,575</b>	<b>953,067</b>
<b>Liabilities:</b>			
Accounts Payable	29,968	26,160	56,128
Accrued Wages and Benefits	58,635	23,427	82,062
Intergovernmental Payable	3,455	2,600	6,055
Accrued Interest Payable	3,537	20,918	24,455
Noncurrent Liabilities:			
Due Within One Year	230,007	733,604	963,611
Due in More Than One Year:			
Net Pension Liability	2,189,723	763,115	2,952,838
Other Amounts Due in More Than One Year	786,882	4,722,306	5,509,188
<b>Total Liabilities</b>	<b>3,302,207</b>	<b>6,292,130</b>	<b>9,594,337</b>
<b>Deferred Inflows of Resources:</b>			
Property Tax Levy for Next Fiscal Year	652,686	0	652,686
Pension:			
OPERS	6,544	4,543	11,087
OP&F	34,772	0	34,772
<b>Total Deferred Inflows of Resources</b>	<b>694,002</b>	<b>4,543</b>	<b>698,545</b>
<b>Net Position:</b>			
Net Investment in Capital Assets	6,492,369	4,336,317	10,828,686
Restricted For:			
Capital Projects	287,180	0	287,180
Other Purposes	430,225	0	430,225
Unrestricted (Deficit)	(482,412)	(247,418)	(729,830)
<b>Total Net Position</b>	<b>\$ 6,727,362</b>	<b>\$ 4,088,899</b>	<b>\$ 10,816,261</b>

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

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**Statement of Activities**  
**For the Year Ended December 31, 2017**

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	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 1,385,490	\$ 277,739	\$ 55,830	\$ 0
Leisure Time Activities	254,987	88,316	0	0
Community Environment	0	0	12,109	0
Public Health and Welfare	37,599	24,959	0	0
Transportation	574,834	0	292,182	500,000
General Government	576,852	79,300	0	0
Interest and Fiscal Charges	24,497	0	0	0
<b>Total Governmental Activities</b>	<b>2,854,259</b>	<b>470,314</b>	<b>360,121</b>	<b>500,000</b>
<b>Business-Type Activities:</b>				
Water	1,081,755	622,491	0	0
Wastewater	1,293,185	1,214,669	0	0
<b>Total Business-Type Activities</b>	<b>2,374,940</b>	<b>1,837,160</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 5,229,199</b>	<b>\$ 2,307,474</b>	<b>\$ 360,121</b>	<b>\$ 500,000</b>

**General Revenues and Transfers**

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

Change in Net Position

Net Position Beginning of Year  
Net Position End of Year

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

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Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,051,921)	\$ 0	\$ (1,051,921)
(166,671)	0	(166,671)
12,109	0	12,109
(12,640)	0	(12,640)
217,348	0	217,348
(497,552)	0	(497,552)
(24,497)	0	(24,497)
<u>(1,523,824)</u>	<u>0</u>	<u>(1,523,824)</u>
0	(459,264)	(459,264)
0	(78,516)	(78,516)
<u>0</u>	<u>(537,780)</u>	<u>(537,780)</u>
<u>\$ (1,523,824)</u>	<u>\$ (537,780)</u>	<u>\$ (2,061,604)</u>
107,771	0	107,771
556,963	0	556,963
1,012,054	0	1,012,054
618	0	618
165,749	0	165,749
14,298	0	14,298
111,169	0	111,169
20,000	(20,000)	0
<u>1,988,622</u>	<u>(20,000)</u>	<u>1,968,622</u>
464,798	(557,780)	(92,982)
<u>6,262,564</u>	<u>4,646,679</u>	<u>10,909,243</u>
<u>\$ 6,727,362</u>	<u>\$ 4,088,899</u>	<u>\$ 10,816,261</u>

**VILLAGE OF EAST PALESTINE, OHIO**

**Balance Sheet  
Governmental Funds  
December 31, 2017**

	General	Street Construction Maintenance and Repair	Capital Improvement	Street Levy Capital Replacement
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 326,157	\$ 70,038	\$ 41,193	\$ 39,640
Investments	100,591	0	0	0
Receivables:				
Taxes	727,579	0	0	279,778
Accounts	77,573	0	0	0
Intergovernmental	36,413	133,835	0	22,699
Interfund Loans Receivable	2,174,136	0	0	0
Inventory of Supplies	0	4,216	0	0
Prepaid Items	23,113	0	0	0
<b>Total Assets</b>	<b>\$ 3,465,562</b>	<b>\$ 208,089</b>	<b>\$ 41,193</b>	<b>\$ 342,117</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 20,085	\$ 2,662	\$ 0	\$ 0
Accrued Wages and Benefits Payable	46,222	8,425	0	0
Intergovernmental Payable	3,455	0	0	0
Interfund Loans Payable	0	0	2,139,136	0
Compensated Absences Payable	0	859	0	0
<b>Total Liabilities</b>	<b>69,762</b>	<b>11,946</b>	<b>2,139,136</b>	<b>0</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable Amounts	513,516	89,193	0	48,896
Property Tax Levy for Next Fiscal Year	105,454	0	0	252,103
<b>Total Deferred Inflows of Resources</b>	<b>618,970</b>	<b>89,193</b>	<b>0</b>	<b>300,999</b>
<b>Fund Balance:</b>				
Nonspendable	2,197,249	4,216	0	0
Restricted	0	102,734	0	41,118
Assigned	254,788	0	0	0
Unassigned	324,793	0	(2,097,943)	0
<b>Total Fund Balance</b>	<b>2,776,830</b>	<b>106,950</b>	<b>(2,097,943)</b>	<b>41,118</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 3,465,562</b>	<b>\$ 208,089</b>	<b>\$ 41,193</b>	<b>\$ 342,117</b>

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

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Other Governmental Funds	Total Governmental Funds
\$ 348,134	\$ 825,162
33,259	133,850
328,626	1,335,983
0	77,573
39,856	232,803
0	2,174,136
0	4,216
832	23,945
<u>\$ 750,707</u>	<u>\$ 4,807,668</u>
\$ 7,221	\$ 29,968
3,988	58,635
0	3,455
0	2,139,136
0	859
<u>11,209</u>	<u>2,232,053</u>
65,509	717,114
<u>295,129</u>	<u>652,686</u>
<u>360,638</u>	<u>1,369,800</u>
832	2,202,297
378,028	521,880
0	254,788
0	(1,773,150)
<u>378,860</u>	<u>1,205,815</u>
<u>\$ 750,707</u>	<u>\$ 4,807,668</u>

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Reconciliation Of Total Governmental Fund Balances To Net Position Of Governmental Activities December 31, 2017***

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<b>Total Governmental Fund Balances</b>	\$	1,205,815
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		7,393,547
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		717,114
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	661,492	
Deferred Inflows - Pension	(41,316)	
Net Pension Liability	<u>(2,189,723)</u>	(1,569,547)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(114,852)	
Ohio Public Works Commission Loans Payable	(92,000)	
Capital Leases Payable	(293,178)	
Long Term Promissory Notes	(176,000)	
General Obligation Bonds Payable	(340,000)	
Accrued Interest Payable	<u>(3,537)</u>	(1,019,567)
<b><i>Net Position of Governmental Activities</i></b>	<b>\$</b>	<b><u>6,727,362</u></b>

See accompanying notes to the basic financial statements

***VILLAGE OF EAST PALESTINE, OHIO***

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**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2017**

	General	Street Construction Maintenance and Repair	Capital Improvement	Street Levy Capital Replacement
<b>Revenues:</b>				
Taxes	\$ 1,092,516	\$ 0	\$ 0	\$ 264,980
Intergovernmental Revenues	118,335	277,241	0	545,404
Charges for Services	266,025	0	0	0
Licenses and Permits	79,300	0	0	0
Investment Earnings	14,133	0	0	0
Fines and Forfeitures	8,440	0	0	0
All Other Revenue	101,189	9,466	1,594	0
<b>Total Revenue</b>	<b>1,679,938</b>	<b>286,707</b>	<b>1,594</b>	<b>810,384</b>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	1,017,087	0	0	0
Leisure Time Activities	0	0	0	0
Public Health and Welfare	0	0	0	0
Transportation	0	459,926	0	0
General Government	458,805	0	0	0
Capital Outlay	0	0	37,009	820,229
Debt Service:				
Principal Retirement	14,701	0	38,403	9,931
Interest & Fiscal Charges	8,358	0	12,013	1,069
<b>Total Expenditures</b>	<b>1,498,951</b>	<b>459,926</b>	<b>87,425</b>	<b>831,229</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	180,987	(173,219)	(85,831)	(20,845)
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	2,366	0	0	0
Loan Proceeds	0	0	0	0
Other Financing Sources - Capital Lease	0	167,546	0	0
Transfers In	30,000	0	99,419	0
Transfers Out	(109,419)	(5,000)	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(77,053)</b>	<b>162,546</b>	<b>99,419</b>	<b>0</b>
Net Change in Fund Balance	103,934	(10,673)	13,588	(20,845)
<b>Fund Balance at Beginning of Year</b>	2,672,896	123,755	(2,111,531)	61,963
Decrease in Inventory	0	(6,132)	0	0
<b>Fund Balance End of Year</b>	<b>\$ 2,776,830</b>	<b>\$ 106,950</b>	<b>\$ (2,097,943)</b>	<b>\$ 41,118</b>

See accompanying notes to the basic financial statements



**VILLAGE OF EAST PALESTINE, OHIO**

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Other Governmental Funds	Total Governmental Funds
\$ 309,276 93,054 115,775 0 165 774 2,290 <hr style="width: 100%;"/> 521,334 <hr style="width: 100%;"/>	\$ 1,666,772 1,034,034 381,800 79,300 14,298 9,214 114,539 <hr style="width: 100%;"/> 3,299,957 <hr style="width: 100%;"/>
160,665 215,521 33,800 11,368 0 327,706  12,014 968 <hr style="width: 100%;"/> 762,042 <hr style="width: 100%;"/>	1,177,752 215,521 33,800 471,294 458,805 1,184,944  75,049 22,408 <hr style="width: 100%;"/> 3,639,573 <hr style="width: 100%;"/>
(240,708)	(339,616)
0 176,000 0 10,000 (5,000) <hr style="width: 100%;"/> 181,000 <hr style="width: 100%;"/> (59,708)	2,366 176,000 167,546 139,419 (119,419) <hr style="width: 100%;"/> 365,912 <hr style="width: 100%;"/> 26,296
438,568 0 <hr style="width: 100%;"/> \$ 378,860 <hr style="width: 100%;"/>	1,185,651 (6,132) <hr style="width: 100%;"/> \$ 1,205,815 <hr style="width: 100%;"/>

**VILLAGE 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 Year Ended December 31, 2017***

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Net Change in Fund Balances - Total Governmental Funds \$ 26,296

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

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

Capital Outlay	1,377,549	
Depreciation Expense	(433,608)	943,941

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(5,677)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(900)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

157,770

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.

(370,130)

The issuance of long-term debt (e.g. notes, bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net position.

Capital Lease Issuance	(167,546)	
Long Term Promissory Note Issuance	(176,000)	
Ohio Public Works Commission Loan Retirement	8,000	
General Obligation Bond Retirement	15,000	
Capital Lease Retirement	50,095	
Long Term Promissory Note Retirement	1,954	(268,497)

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

(2,089)

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	(9,784)	
Change in Inventory	(6,132)	(15,916)

***Change in Net Position of Governmental Activities***

**\$ 464,798**

See accompanying notes to the basic financial statements

***VILLAGE OF EAST PALESTINE, OHIO***

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**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 987,075	\$ 1,105,471	\$ 1,105,542	\$ 71
Intergovernmental Revenues	108,019	120,976	118,474	(2,502)
Charges for Services	231,376	259,129	263,067	3,938
Licenses and Permits	70,027	78,427	78,512	85
Investment Earnings	13,215	14,800	14,133	(667)
Fines and Forfeitures	8,929	10,000	8,450	(1,550)
All Other Revenues	45,458	50,910	45,153	(5,757)
Total Revenues	1,464,099	1,639,713	1,633,331	(6,382)
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	1,009,167	1,056,145	1,017,717	38,428
General Government	598,246	465,087	461,381	3,706
Debt Service:				
Principal Retirement	0	14,701	14,701	0
Interest and Fiscal Charges	0	8,359	8,358	1
Total Expenditures	1,607,413	1,544,292	1,502,157	42,135
Excess (Deficiency) of Revenues Over (Under) Expenditures	(143,314)	95,421	131,174	35,753
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	0	2,366	2,366	0
Transfers Out	0	(114,419)	(114,419)	0
Total Other Financing Sources (Uses):	0	(112,053)	(112,053)	0
Net Change in Fund Balance	(143,314)	(16,632)	19,121	35,753
Fund Balance at Beginning of Year	214,425	214,425	214,425	0
Prior Year Encumbrances	19,924	19,924	19,924	0
Fund Balance at End of Year	\$ 91,035	\$ 217,717	\$ 253,470	\$ 35,753

See accompanying notes to the basic financial statements

**VILLAGE 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 – Street Construction , Maintenance and Repair Fund  
For the Year Ended December 31, 2017**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental Revenue	\$ 275,129	\$ 287,533	\$ 280,727	\$ (6,806)
All Other Revenues	2,850	2,979	9,788	6,809
Total Revenues	<u>277,979</u>	<u>290,512</u>	<u>290,515</u>	<u>3</u>
<b>Expenditures:</b>				
Current:				
Transportation	308,402	475,561	459,974	15,587
Total Expenditures	<u>308,402</u>	<u>475,561</u>	<u>459,974</u>	<u>15,587</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(30,423)	(185,049)	(169,459)	15,590
<b>Other Financing Sources (Uses):</b>				
Lease Issuance	0	167,546	167,546	0
Transfers Out	0	(5,000)	(5,000)	0
Total Other Financing Sources (Uses):	<u>0</u>	<u>162,546</u>	<u>162,546</u>	<u>0</u>
Net Change in Fund Balance	(30,423)	(22,503)	(6,913)	15,590
Fund Balance at Beginning of Year	74,747	74,747	74,747	0
Prior Year Encumbrances	462	462	462	0
Fund Balance at End of Year	<u>\$ 44,786</u>	<u>\$ 52,706</u>	<u>\$ 68,296</u>	<u>\$ 15,590</u>

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Net Position  
Proprietary Funds  
December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>Assets:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 387,918	\$ 401,682	\$ 789,600
Receivables:			
Accounts	90,027	187,725	277,752
Intergovernmental	79	101	180
Inventory of Supplies at Cost	52,043	11,368	63,411
Prepaid Items	5,920	7,047	12,967
Total Current Assets	535,987	607,923	1,143,910
Noncurrent Assets:			
Capital Assets, Net	2,741,337	6,243,750	8,985,087
<b>Total Assets</b>	<b>3,277,324</b>	<b>6,851,673</b>	<b>10,128,997</b>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	176,148	115,427	291,575
<b>Total Deferred Outflows of Resources</b>	<b>176,148</b>	<b>115,427</b>	<b>291,575</b>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts Payable	12,139	14,021	26,160
Accrued Wages and Benefits	13,482	9,945	23,427
Intergovernmental Payable	0	2,600	2,600
Compensated Absences Payable - Current	12,376	5,304	17,680
Accrued Interest Payable	11,493	9,425	20,918
Capital Leases Payable - Current	45,192	97,670	142,862
General Obligation Bonds Payable - Current	26,250	233,750	260,000
OWDA Loans Payable - Current	30,678	231,256	261,934
OPWC Loans Payable - Current	15,934	35,194	51,128
Total Current Liabilities	167,544	639,165	806,709
Noncurrent Liabilities:			
Capital Leases Payable	175,140	400,662	575,802
General Obligation Bonds Payable	0	1,355,000	1,355,000
OWDA Loans Payable	872,665	1,208,293	2,080,958
OPWC Loans Payable	258,425	357,661	616,086
Compensated Absences Payable	68,611	25,849	94,460
Interfund Loans Payable	10,000	25,000	35,000
Net Pension Liability	461,018	302,097	763,115
Total Noncurrent Liabilities	1,845,859	3,674,562	5,520,421
<b>Total Liabilities</b>	<b>2,013,403</b>	<b>4,313,727</b>	<b>6,327,130</b>

**VILLAGE OF EAST PALESTINE, OHIO**

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	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>Deferred Inflows of Resources:</b>			
Pension:			
OPERS	2,744	1,799	4,543
<b>Total Deferred Inflows of Resources</b>	2,744	1,799	4,543
<b>Net Position:</b>			
Net Investment in Capital Assets	1,525,553	2,810,764	4,336,317
Unrestricted	(88,228)	(159,190)	(247,418)
<b>Total Net Position</b>	\$ 1,437,325	\$ 2,651,574	\$ 4,088,899

See accompanying notes to the basic financial statements

**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>Operating Revenues:</b>			
Charges for Services	\$ 585,885	\$ 1,208,690	\$ 1,794,575
<b>Total Operating Revenues</b>	<u>585,885</u>	<u>1,208,690</u>	<u>1,794,575</u>
<b>Operating Expenses:</b>			
Personal Services	487,652	253,373	741,025
Contractual Services	206,710	185,779	392,489
Materials and Supplies	282,398	517,919	800,317
Depreciation	80,370	240,578	320,948
<b>Total Operating Expenses</b>	<u>1,057,130</u>	<u>1,197,649</u>	<u>2,254,779</u>
<b>Operating Income (Loss)</b>	(471,245)	11,041	(460,204)
<b>Non-Operating Revenue (Expenses):</b>			
Interest and Fiscal Charges	(24,613)	(95,514)	(120,127)
Other Nonoperating Revenue	36,606	5,979	42,585
Other Nonoperating Expense	(12)	(22)	(34)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>11,981</u>	<u>(89,557)</u>	<u>(77,576)</u>
<b>Loss Before Transfers</b>	(459,264)	(78,516)	(537,780)
<b>Transfers:</b>			
Transfers-Out	(10,000)	(10,000)	(20,000)
<b>Total Transfers</b>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>
<b>Change in Net Position</b>	(469,264)	(88,516)	(557,780)
<b>Net Position Beginning of Year</b>	1,906,589	2,740,090	4,646,679
<b>Net Position End of Year</b>	<u>\$ 1,437,325</u>	<u>\$ 2,651,574</u>	<u>\$ 4,088,899</u>

See accompanying notes to the basic financial statements



**VILLAGE OF EAST PALESTINE, OHIO**

**Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Wastewater	
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$615,895	\$1,206,651	\$1,822,546
Cash Payments for Goods and Services	(503,321)	(701,555)	(1,204,876)
Cash Payments to Employees	(343,686)	(267,667)	(611,353)
Net Cash Provided (Used) by Operating Activities	(231,112)	237,429	6,317
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfers Out to Other Funds	(10,000)	(10,000)	(20,000)
Net Cash Used by Noncapital Financing Activities	(10,000)	(10,000)	(20,000)
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and Construction of Assets	(62,314)	(86,933)	(149,247)
Lease Issuance	208,500	486,500	695,000
Principal Paid on Ohio Water Development Authority Loans	(29,803)	(195,582)	(225,385)
Proceeds from Ohio Water Development Authority Loans	43,364	36,470	79,834
Principal Paid on General Obligation Bonds	(25,500)	(229,500)	(255,000)
Principal Paid on Ohio Public Works Commission Loans	(15,934)	(35,194)	(51,128)
Interest Paid on All Debt	(25,102)	(96,467)	(121,569)
Net Cash Provided (Used) by Capital and Related Financing Activities	93,211	(120,706)	(27,495)
Increase (Decrease) in Cash and Cash Equivalents	(147,901)	106,723	(41,178)
Cash and Cash Equivalents at Beginning of Year	535,819	294,959	830,778
Cash and Cash Equivalents at End of Year	\$387,918	\$401,682	\$789,600
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating Income (Loss)	(\$471,245)	\$11,041	(\$460,204)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	80,370	240,578	320,948
Miscellaneous Nonoperating Revenue	36,931	6,428	43,359
Miscellaneous Nonoperating Expense	(12)	(22)	(34)
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:			
Increase in Accounts Receivable	(6,921)	(8,467)	(15,388)
(Increase) Decrease in Inventory	(15,322)	3,405	(11,917)
Increase in Prepaid Items	(76)	(787)	(863)
Increase in Deferred Outflows	(66,308)	(12,116)	(78,424)
Increase (Decrease) in Accounts Payable	1,172	(468)	704
Increase (Decrease) in Accrued Wages and Benefits	4,598	(6,021)	(1,423)
Increase (Decrease) in Compensated Absences	36,994	(22,523)	14,471
Decrease in Deferred Inflows	(2,849)	(3,462)	(6,311)
Increase in Net Pension Liability	171,556	29,843	201,399
Total Adjustments	240,133	226,388	466,521
Net Cash Provided (Used) by Operating Activities	(\$231,112)	\$237,429	\$6,317

See accompanying notes to the basic financial statements

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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

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

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

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

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

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

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

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

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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

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

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

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

Capital Improvement Fund - This fund is used to account for income tax revenue in the form of transfers to be used for the major capital projects undertaken by the Village and related debt payments other than those accounted for in the Water and Wastewater funds.

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

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

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

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

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

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

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

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

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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

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

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

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

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

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

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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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 Village is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

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

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

Property taxes measurable as of December 31, 2017 but which are not intended to finance 2017 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 6.

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

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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

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

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

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

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the Village by September 1 of each year. As part of the certification process, the Village receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

## ***VILLAGE OF EAST PALESTINE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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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 Village Council. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General Fund and Major Special Revenue Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

##### **4. Lapsing of Appropriations**

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

##### **5. Budgetary Basis of Accounting**

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

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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

**E. Budgetary Process (Continued)**

5. Budgetary Basis of Accounting (Continued)

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

	Net Change in Fund Balance	
	General Fund	Street Construction Maintenance and Repair Fund
GAAP Basis (as reported)	\$103,934	(\$10,673)
Increase (Decrease):		
Accrued Revenues at December 31, 2017 received during 2018	(222,595)	(44,642)
Accrued Revenues at December 31, 2016 received during 2017	232,704	48,450
Accrued Expenditures at December 31, 2017 paid during 2018	69,762	11,946
Accrued Expenditures at December 31, 2016 paid during 2017	(70,926)	(10,252)
2016 Prepays for 2017	22,188	0
2017 Prepays for 2018	(23,113)	0
Outstanding Encumbrances	(1,117)	(1,742)
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(91,716)	0
Budget Basis	\$19,121	(\$6,913)

**F. Cash and Cash Equivalents**

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

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



## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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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. The Village allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and GASB Statement No. 72, "Fair Value Measurement and Application," the Village records all its investments at fair value except for nonparticipating investment contracts which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statements. At December 31, 2017 the Village reported \$133,850 of investments, which are certificates of deposit with original maturities of greater than three months.

The Village categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Village's investment in the State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the Village. The Village measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value. For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes. See Note 5, "Cash, Cash Equivalents and Investments."

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

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

##### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

# VILLAGE OF EAST PALESTINE, OHIO

## Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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

#### J. Capital Assets and Depreciation

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

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

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

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

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 acquisition value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

##### 3. Depreciation

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

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

**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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

**K. Long-Term Obligations**

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

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

**L. Compensated Absences**

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

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

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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

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

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

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

##### **M. Net Position**

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

##### **N. Pensions**

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

##### **O. Interfund Activity**

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

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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

##### **P. Fund Balances**

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

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

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

*Committed* – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Village's highest level of decision making authority. For the Village, these constraints consist of ordinances passed by Village Council. Committed amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts. The Village has no fund balances reported as committed at December 31, 2017.

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

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

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

##### **Q. Operating Revenues and Expenses**

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

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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

##### **R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Village and that are either unusual in nature or infrequent in occurrence. The Village had no extraordinary or special items to report during fiscal year 2017.

##### **S. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. For the Village, deferred outflows of resources are reported for pension amounts on the government-wide and proprietary funds statement of net position. See Note 11.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position. See Note 11.

## *VILLAGE OF EAST PALESTINE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### **NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE**

For 2017, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” Statement No. 80, “Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14,” Statement No. 81, “Irrevocable Split-Interest Agreements,” and Statement No. 82, “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.”

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions.

GASB Statement No. 74 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments.

GASB Statement No. 81 addresses irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68.

These changes were incorporated in the Village’s 2017 financial statements; however, there was no effect on beginning net position/fund balance.

#### **NOTE 3 - COMPLIANCE AND ACCOUNTABILITY**

**Fund Deficits** - The fund deficit at December 31, 2017 of \$2,097,943 in the Capital Improvement Fund (capital projects fund) arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The general fund provides transfers when cash is required, not when accruals occur.

## **VILLAGE OF EAST PALESTINE, OHIO**

### **Notes to the Basic Financial Statements For the Year Ended December 31, 2017**

#### **NOTE 4 – FUND BALANCE CLASSIFICATION**

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

Fund Balances	General Fund	Street Construction Maintenance and Repair Fund	Capital Improvement Fund	Street Levy Capital Replacement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid Items	\$23,113	\$0	\$0	\$0	\$832	\$23,945
Supplies Inventory	0	4,216	0	0	0	4,216
Interfund Loans Receivable	2,174,136	0	0	0	0	2,174,136
<b>Total Nonspendable</b>	<b>2,197,249</b>	<b>4,216</b>	<b>0</b>	<b>0</b>	<b>832</b>	<b>2,202,297</b>
Restricted:						
Fire Capital Improvements	0	0	0	0	86,058	86,058
Police Capital Improvements	0	0	0	0	33,952	33,952
Street Capital Improvements	0	0	0	41,118	0	41,118
Park Capital Improvements	0	0	0	0	47,045	47,045
Community Development and Improvemen	0	0	0	0	105,102	105,102
Street Maintenance and Repair	0	102,734	0	0	23,689	126,423
EMS Training	0	0	0	0	1,840	1,840
Parks and Recreation	0	0	0	0	26,760	26,760
Cemetery Maintenance	0	0	0	0	36,130	36,130
Law Enforcement	0	0	0	0	17,452	17,452
<b>Total Restricted</b>	<b>0</b>	<b>102,734</b>	<b>0</b>	<b>41,118</b>	<b>378,028</b>	<b>521,880</b>
Assigned:						
Services and Supplies	175	0	0	0	0	175
Compensated Absences	35,141	0	0	0	0	35,141
Budget Resource	219,472	0	0	0	0	219,472
<b>Total Assigned</b>	<b>254,788</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>254,788</b>
Unassigned (Deficits):	324,793	0	(2,097,943)	0	0	(1,773,150)
<b>Total Fund Balances</b>	<b>\$2,776,830</b>	<b>\$106,950</b>	<b>(\$2,097,943)</b>	<b>\$41,118</b>	<b>\$378,860</b>	<b>\$1,205,815</b>



## ***VILLAGE OF EAST PALESTINE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

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

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village has no deposit policy for custodial risk beyond the requirements of State statute.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to the Village and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At December 31, 2017, the carrying amount of the Village's deposits was \$1,676,203 and the bank balance was \$1,743,874. Of the bank balance, \$1,574,278 was covered by federal depository insurance and \$169,596 was exposed to custodial risk and was collateralized with securities held in the Ohio Pooled Collateral System.

Investment earnings of \$12,039 earned by other funds were credited to the General Fund as required by state statute.

**B. Investments**

The Village's investments at December 31, 2017 are summarized below:

	Fair Value <sup>2</sup>	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$72,409	AAAm <sup>1</sup>	\$72,409	\$0	\$0
Total Investments	<u>\$72,409</u>		<u>\$72,409</u>	<u>\$0</u>	<u>\$0</u>

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

<sup>2</sup> Reported at Amortized Cost

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

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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

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

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$1,614,762	\$133,850
Certificates of Deposit (with maturities of more than 3 months)	133,850	(133,850)
Investments:		
STAR Ohio	<u>(72,409)</u>	<u>72,409</u>
Per GASB Statement No. 3	<u>\$1,676,203</u>	<u>\$72,409</u>

**NOTE 6 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property located in the Village. Real property taxes (other than public utility) collected during 2017 were levied after October 1, 2016 on assessed values as of January 1, 2016, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 2016. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 6 - TAXES (Continued)**

##### **A. Property Taxes (Continued)**

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

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

The full property tax rate for all Village operations for the year ended December 31, 2017 was \$13.90 per \$1,000 of assessed value. The assessed value upon which the 2017 tax levy was based was \$62,098,870. This amount constitutes \$58,108,890 in real property assessed value and \$3,989,980 in public utility assessed value.

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

##### **B. Income Taxes**

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

#### **NOTE 7 - RECEIVABLES**

Receivables at December 31, 2017 consisted of taxes, accounts, interfund loans, and intergovernmental receivables.

**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 8 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2017:

Fund	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$30,000	\$109,419
Street Construction, Maintenance and Repair Fund	0	5,000
Capital Improvement Fund	99,419	0
Other Governmental Funds	10,000	5,000
Total Governmental Funds	139,419	119,419
Proprietary Funds:		
Water Fund	0	10,000
Wastewater Fund	0	10,000
Total Proprietary Funds	0	20,000
Totals	\$139,419	\$139,419

**NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of interfund loans receivable and payable for all funds for 2017:

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

Interfund loans of \$2,174,136 are the result of advances made to the Capital Improvement Fund, Water Fund, and Wastewater Fund from the General Fund for various capital improvements. The loans were initially made during the period from 1996 to 2006. In 2015 the Village passed an ordinance to suspend repayments of the interfund loans through December 31, 2020.

**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 10 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2017:

**Historical Cost:**

Class	December 31, 2016	Additions	Deletions	December 31, 2017
<b>Capital assets not being depreciated:</b>				
Land	\$295,074	\$0	\$0	\$295,074
Subtotal	295,074	0	0	295,074
<b>Capital assets being depreciated:</b>				
Buildings	798,984	0	0	798,984
Improvements Other than Buildings	196,328	0	0	196,328
Machinery and Equipment	3,111,282	619,673	(56,775)	3,674,180
Infrastructure	6,072,897	757,876	0	6,830,773
Subtotal	10,179,491	1,377,549	(56,775)	11,500,265
Total Cost	<u>\$10,474,565</u>	<u>\$1,377,549</u>	<u>(\$56,775)</u>	<u>\$11,795,339</u>

**Accumulated Depreciation:**

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Buildings	(\$394,632)	(\$16,614)	\$0	(\$411,246)
Improvements Other than Buildings	(104,934)	(7,677)	0	(112,611)
Machinery and Equipment	(2,155,407)	(149,134)	51,098	(2,253,443)
Infrastructure	(1,364,309)	(260,183)	0	(1,624,492)
Total Depreciation	<u>(\$4,019,282)</u>	<u>(\$433,608) *</u>	<u>\$51,098</u>	<u>(\$4,401,792)</u>
<b>Net Value:</b>	<u>\$6,455,283</u>			<u>\$7,393,547</u>

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

Security of Persons and Property	\$113,379
Leisure Time Activities	26,584
Transportation	290,956
General Government	2,689
Total Depreciation Expense	<u>\$433,608</u>

**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 10 - CAPITAL ASSETS (Continued)**

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

Summary by Category at December 31, 2017:

**Historical Cost:**

Class	December 31, 2016	Additions	Deletions	December 31, 2017
<b>Capital assets not being depreciated:</b>				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	130,874	79,834	0	210,708
Subtotal	<u>308,385</u>	<u>79,834</u>	<u>0</u>	<u>388,219</u>
<b>Capital assets being depreciated:</b>				
Buildings	2,079,874	0	0	2,079,874
Improvements Other than Buildings	1,581,627	0	0	1,581,627
Machinery and Equipment	1,490,718	58,069	0	1,548,787
Infrastructure	11,506,564	0	0	11,506,564
Subtotal	<u>16,658,783</u>	<u>58,069</u>	<u>0</u>	<u>16,716,852</u>
Total Cost	<u><u>\$16,967,168</u></u>	<u><u>\$137,903</u></u>	<u><u>\$0</u></u>	<u><u>\$17,105,071</u></u>

**Accumulated Depreciation:**

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Buildings	(\$1,612,877)	(\$20,991)	\$0	(\$1,633,868)
Improvements Other than Buildings	(314,601)	(32,574)	0	(347,175)
Machinery and Equipment	(1,335,640)	(25,804)	0	(1,361,444)
Infrastructure	(4,535,918)	(241,579)	0	(4,777,497)
Total Depreciation	<u><u>(\$7,799,036)</u></u>	<u><u>(\$320,948)</u></u>	<u><u>\$0</u></u>	<u><u>(\$8,119,984)</u></u>
<b>Net Value:</b>	<u><u>\$9,168,132</u></u>			<u><u>\$8,985,087</u></u>

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## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### NOTE 11 – DEFINED BENEFIT PENSION PLANS

##### *Net Pension Liability*

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

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

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

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

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

##### *Plan Description – Ohio Public Employees Retirement System (OPERS)*

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



## *VILLAGE OF EAST PALESTINE, OHIO*

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

	<u>State and Local</u>
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

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

The Village's contractually required contribution was \$136,332 for 2017. Of this amount, \$16,057 is reported as an intergovernmental payable.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

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

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

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

	<u>Police</u>	<u>Firefighters</u>
<b>2017 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2017 through December 31, 2017	12.25 %	12.25 %
<b>2017 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2017 through December 31, 2017	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The Village's contractually required contribution to OPF was \$77,294 for 2017. Of this amount \$9,414 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The Village's proportion of the net pension liability was based on the Village's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,862,596	\$1,090,242	\$2,952,838
Proportion of the Net Pension Liability-2017	0.008202%	0.017213%	
Proportion of the Net Pension Liability-2016	<u>0.008037%</u>	<u>0.015934%</u>	
Percentage Change	<u>0.0001649%</u>	<u>0.0012787%</u>	
Pension Expense	\$407,543	\$135,107	\$542,650

**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

At December 31, 2017, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$277,384	\$106,019	\$383,403
Differences between expected and actual experience	2,525	308	2,833
Change of assumptions	295,430	0	295,430
Change in Proportionate Share	0	57,775	57,775
Village contributions subsequent to the measurement date	<u>136,332</u>	<u>77,294</u>	<u>213,626</u>
Total Deferred Outflows of Resources	<u>\$711,671</u>	<u>\$241,396</u>	<u>\$953,067</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$11,087	\$2,509	\$13,596
Change in Proportionate Share	<u>0</u>	<u>32,263</u>	<u>32,263</u>
Total Deferred Inflows of Resources	<u>\$11,087</u>	<u>\$34,772</u>	<u>\$45,859</u>

\$213,626 reported as deferred outflows of resources related to pension resulting from Village contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2018	\$232,744	\$43,862	\$276,606
2019	241,036	43,862	284,898
2020	98,604	34,254	132,858
2021	(8,132)	(3,597)	(11,729)
2022	0	9,812	9,812
2023	<u>0</u>	<u>1,137</u>	<u>1,137</u>
Total	<u>\$564,252</u>	<u>\$129,330</u>	<u>\$693,582</u>

**Actuarial Assumptions - OPERS**

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

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA (Pre 1/7/13 retirees)	3 percent simple
COLA or Ad Hoc COLA (Post 1/7/13 retirees)	3 percent simple through 2018. 2.15 percent simple, thereafter
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 percent for 2016. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Village’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Village’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the Village’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Village's proportionate share of the net pension liability	\$2,845,531	\$1,862,596	\$1,043,493

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

##### *Actuarial Assumptions – OPF*

OPF's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.



## **VILLAGE OF EAST PALESTINE, OHIO**

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

\* levered 2x

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

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

***Changes Between Measurement Date and Report Date*** In October 2017, the OPF Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.0 percent. Although the exact amount of these changes is not known, the impact to the Village’s net pension liability is expected to be significant.

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

**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Village's proportionate share of the net pension liability	\$1,452,073	\$1,090,242	\$783,585

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

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

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS may be 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 2017, 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.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

The Village's contributions for health care to the OPERS for the years ending December 31, 2017, 2016, and 2015 were \$10,630, \$21,218 and \$20,031, respectively, which were equal to the required contributions for each year.

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

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

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions for health care to the OP&F for the years ending December 31, 2017, 2016, and 2015 were \$1,703, \$1,633 and \$1,675 for police and \$273, \$268 and \$280 for firefighters, respectively, which were equal to the required contributions for each year.

**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 13 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the Village at December 31, 2017 were as follows:

			Balance December 31, 2016	Additions	Deductions	Balance December 31, 2017	Amount Due Within One Year
<b>Governmental Activities:</b>							
Ohio Public Works Commission Loan:							
Bridge Replacement	0.00%	2029	\$100,000	\$0	(\$8,000)	\$92,000	\$8,000
General Obligation Bonds:							
Various Purpose	4.75%	2033	355,000	0	(15,000)	340,000	15,000
Long Term Promissory Notes:							
Fire Truck	2.23%	2019	0	176,000	0	176,000	88,000
Cemetery Mower	3.15%	2017	1,954	0	(1,954)	0	0
Total Long Term Promissory Notes			1,954	176,000	(1,954)	176,000	88,000
Capital Leases			175,727	167,546	(50,095)	293,178	82,883
Net Pension Liability:							
Ohio Public Employees Retirement System			830,468	269,013	0	1,099,481	0
Ohio Police and Fire Pension Fund			1,025,052	65,190	0	1,090,242	0
Total Net Pension Liability			1,855,520	334,203	0	2,189,723	0
Compensated Absences Payable			105,068	43,330	(32,687)	115,711	36,124
Total Governmental Activities			<u>\$2,593,269</u>	<u>\$721,079</u>	<u>(\$107,736)</u>	<u>\$3,206,612</u>	<u>\$230,007</u>

**A. Governmental Activities**

*OPWC Loan* - In 2005, the Village entered into an agreement with the Ohio Public Works Commission for a loan for replacement of the West Street Bridge. The interest rate on the loan is 0%. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$160,000 to be paid through 2029. As of December 31, 2017, the loan had an outstanding balance of \$92,000.

*General Obligation Bonds* – In 2013 the Village issued \$395,000 of various purpose general obligation bonds. \$158,500 of the bond proceeds will be used to finance the costs of acquiring and renovating a new municipal building and the remaining \$236,500 to pay off the remaining balance of the West Street Bridge long term promissory note. The various purpose bonds carry an interest rate of 4.75% and mature in December 2033. As of December 31, 2017, the bonds had an outstanding balance of \$340,000.

## VILLAGE OF EAST PALESTINE, OHIO

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

##### **A. Governmental Activities** (Continued)

*Long Term Promissory Notes* - In 2013 the Village issued a promissory note in the amount of \$7,450 to finance the acquisition of a mower for the cemetery department. The promissory note has an interest rate of 3.15% and matured in May 2017.

In 2017 the Village issued a promissory note in the amount of \$176,000 to finance the acquisition of a water tanker fire truck. The promissory note has an interest rate of 2.23% and matures in June 2019. As of December 31, 2017, the loan had an outstanding balance of \$176,000.

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**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

			Balance December 31, 2016	Additions	Deductions	Balance December 31, 2017	Amount Due Within One Year
<b>Business-Type Activities:</b>							
General Obligation Bonds:							
Various Purpose Refunding Bond	2.0-3.25%	2018	\$345,000	\$0	(\$170,000)	\$175,000	\$175,000
Sewerage System Refunding Bond	2.25-5.0%	2031	1,525,000	0	(85,000)	1,440,000	85,000
Total General Obligation Bonds:			1,870,000	0	(255,000)	1,615,000	260,000
Ohio Public Works Commission Loans:							
Phase Five Sanitary Sewer	0.00%	2025	242,550	0	(26,950)	215,600	26,950
Brookdale Water	0.00%	2039	79,493	0	(3,534)	75,959	3,534
Brookdale Sewer	0.00%	2039	185,499	0	(8,244)	177,255	8,244
Water Storage Facility	0.00%	2033	210,800	0	(12,400)	198,400	12,400
Total OPWC Loans:			718,342	0	(51,128)	667,214	51,128
Ohio Water Development Authority Loans:							
Sewer Project - Phase Two	2.20%	2020	257,364	0	(71,531)	185,833	73,114
Wastewater Treatment Plant	1.00%	2025	1,126,002	0	(120,179)	1,005,823	121,382
Waterline Extension	3.95%	2038	74,546	0	(2,179)	72,367	2,266
Sewer Line Extension	3.95%	2038	49,564	0	(1,449)	48,115	1,507
WWTP Phosphorous Reduction	1.00%	2030	34,857	0	(2,424)	32,433	2,448
Water Booster Station	4.14%	2032	232,500	0	(10,960)	221,540	11,419
Moore Lane	2.00%	2042	244,043	0	(7,238)	236,805	7,384
Wheat Hill Reservoir	1.94%	2043	338,693	0	(9,425)	329,268	9,609
Sewer System Improvements	1.00%	2022	130,874	36,470	0	167,344	32,805
Water Pump House	3.06%	2023	0	43,364	0	43,364	0
Total OWDA Loans:			2,488,443	79,834	(225,385)	2,342,892	261,934
Capital Leases			35,008	695,000	(11,344)	718,664	142,862
Net Pension Liability:							
Ohio Public Employees Retirement System			561,716	201,399	0	763,115	0
Compensated Absences			97,669	32,351	(17,880)	112,140	17,680
Total Business-Type Activities			\$5,771,178	\$1,008,584	(\$560,737)	\$6,219,025	\$733,604

## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

##### **B. Business-Type Activities**

*OWDA Loan* - In 1997, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 2.2% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2000 based on a loan amount of \$1,237,264 to be paid through 2020. As of December 31, 2017, the loan had an outstanding balance of \$185,833.

*OWDA Loan* - In 2004, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.0% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2006 based on a loan amount of \$2,371,778 to be paid through 2025. As of December 31, 2017, the loan had an outstanding balance of \$1,005,823.

*OWDA Loan* - In 2009, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 3.95% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$89,228 to be paid through 2038. As of December 31, 2017, the loan had an outstanding balance of \$72,367.

*OWDA Loan* - In 2009, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 3.95% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$59,327 to be paid through 2038. As of December 31, 2017, the loan had an outstanding balance of \$48,115.

*OWDA Loan* - In 2010, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.00% per annum. This loan is payable from sewer service charges. The Village began repaying the loan in semiannual payments in 2010 based on a loan amount of \$50,036 to be paid through 2030. As of December 31, 2017, the loan had an outstanding balance of \$32,433.

*OWDA Loan* - In 2011, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for a water booster station. The interest rate on the loan is 4.14% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2012 based on a loan amount of \$276,625 to be paid through 2032. As of December 31, 2017, the loan had an outstanding balance of \$221,540.



## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

##### **B. Business-Type Activities (Continued)**

*OWDA Loan* - In 2012, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 2.00% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2014 based on a loan amount of \$271,597 to be paid through 2042. As of December 31, 2017, the loan had an outstanding balance of \$236,805.

*OWDA Loan* - In 2013, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for water system improvements. The interest rate on the loan is 1.94% per annum. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2014 based on a loan amount of \$361,475 to be paid through 2044. As of December 31, 2017, the loan had an outstanding balance of \$329,268.

*OWDA Loan* - In 2016, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for sewer system improvements. The interest rate on the loan is 1.00% per annum. This loan is payable from sewer service charges. The Village will begin repaying the loan in semiannual payments in 2018 based on a loan amount of \$167,344 to be paid through 2022. As of December 31, 2017, the loan had an outstanding balance of \$167,344.

*OWDA Loan* - In 2017, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for a water pump house replacement. The interest rate on the loan is 3.06% per annum. This loan is payable from water service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2017 the Village had received \$43,364. As of December 31, 2017 the loan has not been finalized and there is no amortization schedule for the loan.

*OPWC Loan* - In 2005, the Village entered into an agreement with the Ohio Public Works Commission to receive a loan for sanitary sewer improvements. The interest rate on the loan is 0%. This loan is payable from wastewater service charges. The Village began repaying the loan in semiannual payments in 2005 based on a loan amount of \$539,000 to be paid through 2025. As of December 31, 2017, the loan had an outstanding balance of \$215,600.

*OPWC Loan* - In 2007, the Village entered into an agreement with the Ohio Public Works Commission to receive a loan for water and sewer line improvements. The interest rate on the loan is 0%. This loan is payable from water and wastewater service charges. The Village began repaying the loan in semiannual payments in 2009 based on a loan amount of \$353,327 to be paid through 2039. As of December 31, 2017, the loan had an outstanding balance of \$253,214.

*OPWC Loan* - In 2005, the Village entered into an agreement with the Ohio Public Works Commission to receive a loan for water storage facility improvements. The interest rate on the loan is 0%. This loan is payable from water service charges. The Village began repaying the loan in semiannual payments in 2014 based on a loan amount of \$248,000 to be paid through 2033. As of December 31, 2017, the loan had an outstanding balance of \$198,400.

## ***VILLAGE OF EAST PALESTINE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

##### **C. Defeased Debt**

In February 2003, the Village defeased \$2,236,000 of FHA Loans for Sewer Improvements through the issuance of \$2,235,000 of General Obligation Bonds for Sewer System Improvements. The net proceeds of the 2003 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,484,000 at December 31, 2017, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

In December 2011, the Village defeased \$1,225,000 of General Obligation Bonds dated February 1999 through the issuance of \$1,280,000 of General Obligation Bonds for Water and Sewer System Improvements. The net proceeds of the 2011 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$180,000 at December 31, 2017, are not included in the Village's outstanding debt since the Village has in-substance satisfied its obligations through the advance refunding.

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**VILLAGE OF EAST PALESTINE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

**D. Principal and Interest Requirements**

A summary of the Village's future long-term debt funding requirements, including principal and interest payments as of December 31, 2017 follows:

Years	<b>Governmental Activities</b>					
	OPWC Loan		General Obligation Bonds		Promissory Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$8,000	\$0	\$15,000	\$16,150	\$88,000	\$3,925
2019	8,000	0	15,000	15,438	88,000	1,962
2020	8,000	0	15,000	14,726	0	0
2021	8,000	0	15,000	14,012	0	0
2022	8,000	0	20,000	13,300	0	0
2023-2027	40,000	0	105,000	52,250	0	0
2028-2032	12,000	0	125,000	24,938	0	0
2033-2035	0	0	30,000	1,426	0	0
<b>Totals</b>	<b>\$92,000</b>	<b>\$0</b>	<b>\$340,000</b>	<b>\$152,240</b>	<b>\$176,000</b>	<b>\$5,887</b>

Years	<b>Business-Type Activities</b>					
	General Obligation Bonds		OWDA Loans		OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$260,000	\$70,714	\$261,934	\$39,864	\$51,128	\$0
2019	90,000	61,626	266,083	35,730	51,128	0
2020	90,000	58,026	231,927	31,504	51,128	0
2021	95,000	54,426	196,568	28,580	51,128	0
2022	100,000	50,626	199,250	25,814	51,128	0
2023-2027	575,000	181,128	598,252	93,119	201,740	0
2028-2032	405,000	41,000	227,797	53,598	120,890	0
2033-2037	0	0	155,282	27,369	71,290	0
2038-2042	0	0	138,966	9,694	17,654	0
2043-2044	0	0	23,469	458	0	0
<b>Totals</b>	<b>\$1,615,000</b>	<b>\$517,546</b>	<b>\$2,299,528</b>	<b>\$345,730</b>	<b>\$667,214</b>	<b>\$0</b>

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## **VILLAGE OF EAST PALESTINE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 14 - CAPITAL LEASES**

The Village leases several assets under capital leases. The original cost of the assets and the related liability reported as Governmental Activities capital leases are reported on the Government – wide Statement of Net Position. The original cost of the assets and the related liability reported as Business Type Activities capital leases are reported on the Government – wide Statement of Net Position as well as in the respective funds.

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, 2017:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$92,718	\$163,618
2019	92,718	163,618
2020	58,460	151,280
2021	37,146	151,280
2022	37,146	151,280
Minimum Lease Payments	<u>318,188</u>	<u>781,076</u>
Less amount representing interest at the Village's incremental borrowing rate of interest	<u>(25,010)</u>	<u>(62,412)</u>
Present value of minimum lease payments	<u><u>\$293,178</u></u>	<u><u>\$718,664</u></u>

#### **NOTE 15 - INSURANCE AND RISK MANAGEMENT**

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**VILLAGE OF EAST PALESTINE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 15 - INSURANCE AND RISK MANAGEMENT (Continued)**

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims. The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017:

	<u>2017</u>
Assets	\$44,452,326
Liabilities	<u>(13,004,011)</u>
Net Position	<u>\$31,448,315</u>

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Village's share of these unpaid claims collectible in future years is approximately \$45,998.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**Contributions to PEP**

2017	\$73,012
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**VILLAGE OF EAST PALESTINE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 15 -RISK MANAGEMENT (Continued)**

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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

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

**NOTE 16 - SIGNIFICANT COMMITMENTS**

The Village had the following contractual commitments at December 31, 2017:

Project	Remaining Contractual Commitment	Expected Date of Completion
Water Treatment Plant Improvements	\$162,486	December 2018

At December 31, 2017 the Village had encumbrance commitments in the Governmental Funds as follows:

Fund	Encumbrances
General Fund	\$1,118
Street Construction, Maintenance and Repair Fund	1,742
Other Governmental Funds	4,290
Total Governmental Funds	\$7,150

## *VILLAGE OF EAST PALESTINE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### **NOTE 17 – TAX ABATEMENTS**

The Village of East Palestine provides tax incentives under The Community Reinvestment Area (CRA).

#### ***Real Property Tax Exemption***

Pursuant to Ohio Revised Code Chapter 5709, the Village established a Community Reinvestment area in 2003, which included all land within the boundaries of the Village of East Palestine. The Village of East Palestine authorizes incentives through passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvement have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the Village the ability to maintain and expand business located in the Village and create new jobs by abating or reducing assessed valuation of properties resulting in abated taxes, from new or improved business real estate and includes major housing improvements. The Village of East Palestine also contracts with the East Palestine School District for payments in lieu of taxes when required by Section 5709.82 of the Ohio Revised Code.

The Village of East Palestine has offered the CRA abatements to encourage economic stability, maintain property values, and generate new employment opportunities and population growth.

Below is the information relevant to the disclosure of those programs for the year ending December 31, 2017.

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated For the year 2017</u>
<i>Community Reinvestment Area (CRA)</i>	
Nursing Homes	\$37,165
Medical Clinics	209
Residential	9,926

Pursuant to Section 5709.82 of the Ohio Revised Code, The Village of East Palestine and the East Palestine School District in line with Section 5709.82 of the Ohio Revised Code, created various Community Reinvestment Area Compensation Agreements. Currently the Village of East Palestine only has one agreement with the East Palestine School District, 50% of the total annual municipal income tax revenues.

The following are the required amounts of income tax dollars paid by the Village of East Palestine to the East Palestine School District in 2017:

Nursing Home	\$8,221
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***VILLAGE OF EAST PALESTINE, OHIO***

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 18 - CONTINGENCIES**

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



*VILLAGE OF EAST PALESTINE, OHIO*

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*REQUIRED SUPPLEMENTAL INFORMATION*

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**VILLAGE OF EAST PALESTINE, OHIO**

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

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**Ohio Public Employees Retirement System**

Fiscal Year	2014	2015	2016	2017
Village's proportion of the net pension liability (asset)	0.008241%	0.008241%	0.008037%	0.008202%
Village's proportionate share of the net pension liability (asset)	\$971,506	\$993,958	\$1,392,184	\$1,862,596
Village's covered-employee payroll	\$964,362	\$995,042	\$981,975	\$992,225
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	100.74%	99.89%	141.77%	187.72%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%	77.25%

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

**Ohio Police and Fire Pension Fund**

Fiscal Year	2014	2015	2016	2017
Village's proportion of the net pension liability (asset)	0.016896%	0.016896%	0.015934%	0.017213%
Village's proportionate share of the net pension liability (asset)	\$822,869	\$875,263	\$1,025,052	\$1,090,242
Village's covered-employee payroll	\$346,505	\$353,944	\$359,597	\$383,269
Village's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	237.48%	247.29%	285.06%	284.46%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%	68.36%

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

Notes: The Village implemented GASB Statement 68 in 2015.

The schedule is intended to show ten years of information. Additional years will be displayed as they become available. Information prior to 2014 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability, which is the prior year end.

## **VILLAGE OF EAST PALESTINE, OHIO**

### ***Schedule of Village Contributions Last Five Years***

#### **Ohio Public Employees Retirement System**

Fiscal Year	2013	2014	2015	2016	2017
Contractually required contribution	\$125,367	\$119,405	\$117,837	\$119,067	\$136,332
Contributions in relation to the contractually required contribution	<u>125,367</u>	<u>119,405</u>	<u>117,837</u>	<u>119,067</u>	<u>136,332</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Village's covered-employee payroll	\$964,362	\$995,042	\$981,975	\$992,225	\$1,048,708
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%

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

#### **Ohio Police and Fire Pension Fund**

Fiscal Year	2013	2014	2015	2016	2017
Contractually required contribution	\$59,183	\$72,063	\$70,611	\$75,248	\$77,294
Contributions in relation to the contractually required contribution	<u>59,183</u>	<u>72,063</u>	<u>70,611</u>	<u>75,248</u>	<u>77,294</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Village's covered-employee payroll	\$346,505	\$353,944	\$359,597	\$383,269	\$393,849
Contributions as a percentage of covered-employee payroll	17.08%	20.36%	19.64%	19.63%	19.63%

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

Notes: The Village implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

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# Dave Yost • Auditor of State

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

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County, (the Village) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated November 6, 2018.

### ***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2017-001 to be a significant deficiency.

***Compliance and Other Matters***

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

***Village's Response to Finding***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 6, 2018

VILLAGE OF EAST PALESTINE  
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2017

1. **Emergency Medical Service Rates**

<i>Finding Number</i>	2017-001
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SIGNIFICANT DEFICIENCY

U.S. Attestation Standards (clarified) Section 320 (AT-C 320) codifies standards for reporting on an Examination of Controls at service organizations. An unmodified Type Two Report on Management's Description of a Service Organization's System and the Suitability of Design and Operating Effectiveness of Controls in accordance with AT-C 320 should help provide the Village with reasonable assurance that Emergency Medical Service billings conform to the contract.

The Village contracts with Medicount Management, Inc. as its third party administrator. Included in the Type Two report of Medicount Management, Inc. are several user control considerations (UCCs) the Village should implement to help ensure the information processed by Medicount Management, Inc. is proper. The UCCs include, but are not limited to ensuring that all billing information and other information related to the EMS Services is accurate, current, and complete, and otherwise complies with all applicable federal and state laws and regulations.

The Village adopted a new rate schedule for Emergency Medical Service fees in September 2016. The new rates increased the base rate for ALS I and ALS II services by \$100 and \$200, respectively, the per mile charge for all types of runs also increased \$3.25.

The new rates were provided to Medicount Management, Inc.; however, they were not implemented by Medicount Management, Inc. and no individual at the Village ensured the billing information was current. This led to the billing company charging incorrect rates during 2017 and resulted in lower than anticipated revenues.

The Village contacted Medicount Management, Inc. to review prior billings and determine what could be rebilled and corrected. For a few months of the 2018 fiscal year, Medicount Management, Inc. determined \$1,173 could be rebilled and \$4,917 was considered lost revenue they will submit payment directly to the Village. Medicount Management, Inc. did not attempt to calculate or rebill claims for fiscal year 2017 due to length of time lapsed and provisions of the service contract.

The Village should enact policies and procedures to ensure the billing reports are reviewed in detail and that all new rates are accurately charged and put into effect in a timely manner.

**Official's Response:** The Village of East Palestine has reviewed and updated the EMS Billing policy and procedures. We have provided the Auditor of State with updated policy and procedures that is effective immediately. Once we were made aware of the issues, we contacted Medicount and had them do a complete audit of East Palestine EMS Billing and made necessary changes to our policy and procedures.

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# Dave Yost • Auditor of State

VILLAGE OF EAST PALESTINE

COLUMBIANA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 4, 2018