



OHIO AUDITOR OF STATE
KEITH FABER



**VILLAGE OF EAST PALESTINE
COLUMBIANA COUNTY
DECEMBER 31, 2018**

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VILLAGE OF EAST PALESTINE
COLUMBIANA COUNTY
DECEMBER 31, 2018

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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, 2018, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of East Palestine, Columbiana County, Ohio, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Parks and Recreation funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2018, the Village adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit 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 October 2, 2019, 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.



Keith Faber
Auditor of State

Columbus, Ohio

October 2, 2019

VILLAGE OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2018

Unaudited

The discussion and analysis of the Village of East Palestine's financial performance provides an overall review of the Village's financial activities for the fiscal year ended December 31, 2018. 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 2018 are as follows:

- ❑ In total, net position increased \$406,054. Net position of governmental activities increased \$125,565, or 2% from 2017. Net position of business-type activities increased \$280,489, or 7% from 2017.
- ❑ General revenues accounted for \$2,058,737 in revenue or 42% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,875,728, or 58% of total revenues of \$4,934,465.
- ❑ The Village had \$2,925,885 in expenses related to governmental activities; only \$982,713 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$2,058,737 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$1,614,482 in revenues and \$1,492,744 in expenditures. The general fund's fund balance increased \$35,986 to a balance of \$2,812,816.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

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

VILLAGE OF EAST PALESTINE, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2018*

Unaudited

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

VILLAGE OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2018

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 2018 compared to 2017.

	Governmental Activities		Business-type Activities		Total	
	Restated		Restated			
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$2,751,916	\$2,668,532	\$1,064,749	\$1,108,910	\$3,816,665	\$3,777,442
Capital Assets, Net	7,484,954	7,393,547	9,177,024	8,985,087	16,661,978	16,378,634
Total Assets	<u>10,236,870</u>	<u>10,062,079</u>	<u>10,241,773</u>	<u>10,093,997</u>	<u>20,478,643</u>	<u>20,156,076</u>
Deferred Outflows of Resources	497,222	669,653	151,735	295,872	648,957	965,525
Net Pension Liability	1,771,524	2,189,723	520,666	763,115	2,292,190	2,952,838
Net OPEB Liability	1,429,809	1,272,518	336,248	319,923	1,766,057	1,592,441
Other Long-term Liabilities	824,961	1,016,889	5,253,570	5,455,910	6,078,531	6,472,799
Other Liabilities	127,425	95,595	70,473	73,105	197,898	168,700
Total Liabilities	<u>4,153,719</u>	<u>4,574,725</u>	<u>6,180,957</u>	<u>6,612,053</u>	<u>10,334,676</u>	<u>11,186,778</u>
Deferred Inflows of Resources	991,803	694,002	158,789	4,543	1,150,592	698,545
Net Position						
Net Investment in Capital Assets	6,777,659	6,492,369	4,599,857	4,336,317	11,377,516	10,828,686
Restricted	733,082	717,405	0	0	733,082	717,405
Unrestricted (Deficit)	(1,922,171)	(1,746,769)	(546,095)	(563,044)	(2,468,266)	(2,309,813)
Total Net Position	<u>\$5,588,570</u>	<u>\$5,463,005</u>	<u>\$4,053,762</u>	<u>\$3,773,273</u>	<u>\$9,642,332</u>	<u>\$9,236,278</u>

The net pension liability (NPL) is reported by the Village pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Village adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*.

VILLAGE OF EAST PALESTINE, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2018*

Unaudited

GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Village's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Village's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows. As a result of implementing GASB 75, the Village is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017 from \$6,727,362 to \$5,463,005 for Governmental Activities and from \$4,088,899 to \$3,773,273 for Business-type Activities.

VILLAGE OF EAST PALESTINE, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2018

Unaudited

Changes in Net Position – The following table shows the changes in net position for 2018 compared to 2017:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for Services and Sales	\$398,988	\$470,314	\$1,893,015	\$1,837,160	\$2,292,003	\$2,307,474
Operating Grants and Contributions	317,598	360,121	0	0	317,598	360,121
Capital Grants and Contributions	266,127	500,000	0	0	266,127	500,000
Total Program Revenues	<u>982,713</u>	<u>1,330,435</u>	<u>1,893,015</u>	<u>1,837,160</u>	<u>2,875,728</u>	<u>3,167,595</u>
General Revenues:						
Property Taxes	688,242	664,734	0	0	688,242	664,734
Income Taxes	1,031,750	1,012,054	0	0	1,031,750	1,012,054
Other Local Taxes	502	618	0	0	502	618
Intergovernmental Revenues, Unrestricted	166,372	165,749	0	0	166,372	165,749
Investment Earnings	24,441	14,298	0	0	24,441	14,298
Miscellaneous	147,430	111,169	0	0	147,430	111,169
Total General Revenues	<u>2,058,737</u>	<u>1,968,622</u>	<u>0</u>	<u>0</u>	<u>2,058,737</u>	<u>1,968,622</u>
Total Revenues	<u>3,041,450</u>	<u>3,299,057</u>	<u>1,893,015</u>	<u>1,837,160</u>	<u>4,934,465</u>	<u>5,136,217</u>
Program Expenses						
Security of Persons and Property	1,382,649	1,385,490	0	0	1,382,649	1,385,490
Leisure Time Activities	258,037	254,987	0	0	258,037	254,987
Public Health and Welfare	33,924	37,599	0	0	33,924	37,599
Transportation	610,581	574,834	0	0	610,581	574,834
General Government	611,883	576,852	0	0	611,883	576,852
Interest and Fiscal Charges	28,811	24,497	0	0	28,811	24,497
Water	0	0	653,853	1,081,755	653,853	1,081,755
Wastewater	0	0	948,673	1,293,185	948,673	1,293,185
Total Expenses	<u>2,925,885</u>	<u>2,854,259</u>	<u>1,602,526</u>	<u>2,374,940</u>	<u>4,528,411</u>	<u>5,229,199</u>
Change in Net Position Before Transfers	115,565	444,798	290,489	(537,780)	406,054	(92,982)
Transfers	10,000	20,000	(10,000)	(20,000)	0	0
Total Change in Net Position	125,565	464,798	280,489	(557,780)	406,054	(92,982)
Beginning Net Position - Restated	5,463,005	N/A	3,773,273	N/A	9,236,278	N/A
Ending Net Position - Restated	<u>\$5,588,570</u>	<u>\$5,463,005</u>	<u>\$4,053,762</u>	<u>\$3,773,273</u>	<u>\$9,642,332</u>	<u>\$9,236,278</u>

Governmental Activities

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$8,161 for Governmental Activities and \$4,297 for Business-type Activities computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$108,697 for Governmental Activities and \$25,780 for Business-type Activities.

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2018**

Unaudited

Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities	Business-type Activities
Total 2018 program expenses under GASB 75	\$2,925,885	\$1,602,526
OPEB expense under GASB 75	(108,697)	(25,780)
2018 contractually required contribution	2,022	0
Adjusted 2018 program expenses	2,819,210	1,576,746
Total 2017 program expenses under GASB 45	2,854,259	2,374,940
Change in program expenses not related to OPEB	(\$35,049)	(\$798,194)

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 34% and 23% respectively of revenues for governmental activities in 2018. The Village's reliance upon tax revenues is demonstrated by the following graph indicating 57% of total revenues from general tax revenues:

Revenue Sources	2018	Percent of Total
General Tax Revenues	\$1,720,494	56.57%
Intergovernmental Revenues, Unrestricted	166,372	5.47%
Program Revenues	982,713	32.31%
General Other	171,871	5.65%
Total Revenue	\$3,041,450	100.00%

56.57%
5.65% 5.47%
32.31%

Business-Type Activities

Net position of the business-type activities increased \$280,489. This was a 7% increase from the previous year. Revenues remained consistent with the prior year. A substantial decrease in expenses was the result of meter replacements purchased for all residents in the prior year.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The Village's governmental funds reported a combined fund balance of \$1,237,881, which is an increase from last year's balance of \$1,205,815. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2018 and 2017:

	Fund Balance/Deficit December 31, 2018	Fund Balance/Deficit December 31, 2017	Increase (Decrease)
General	\$2,812,816	\$2,776,830	\$35,986
Parks and Recreation	28,648	27,176	1,472
Capital Improvement	(2,107,409)	(2,097,943)	(9,466)
Street Levy Capital Replacement	64,529	41,118	23,411
Other Governmental	439,297	458,634	(19,337)
Total	\$1,237,881	\$1,205,815	\$32,066

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2018**

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:

	2018 Revenues	2017 Revenues	Increase (Decrease)
Taxes	\$1,136,560	\$1,092,516	\$44,044
Intergovernmental Revenues	70,520	118,335	(47,815)
Charges for Services	188,970	266,025	(77,055)
Licenses and Permits	74,591	79,300	(4,709)
Investment Earnings	24,108	14,133	9,975
Fines and Forfeitures	10,822	8,440	2,382
All Other Revenue	108,911	101,189	7,722
Total	\$1,614,482	\$1,679,938	(\$65,456)

General Fund revenues decreased \$65,456, or approximately 4% from the prior year. A decrease in intergovernmental revenues was the result of EMS and drug task force grants received in the prior year. A decrease in charges for services can be attributed to emergency medical service revenues, which was the result of a decrease in the overall number of EMS service calls made.

	2018 Expenditures	2017 Expenditures	Increase (Decrease)
Current:			
Security of Persons and Property	\$980,303	\$1,017,087	(\$36,784)
General Government	489,666	458,805	30,861
Debt Service:			
Principal Retirement	15,105	14,701	404
Interest and Fiscal Charges	7,670	8,358	(688)
Total	\$1,492,744	\$1,498,951	(\$6,207)

General Fund expenditures remained stable, decreasing \$6,207, or less than 1% from 2017.

Parks and Recreation Fund – The Parks and Recreation fund balance remained stable, increasing \$1,472. This fund reported \$70,000 in grants for tennis court and pavilion improvements.

Capital Improvement Fund - The Capital Improvement Fund balance changed less than 1% to a deficit fund balance of \$2,107,409. An interfund loan payable to the General Fund is the primary factor contributing to this fund's large negative fund balance.

Street Levy Capital Replacement Fund - The Street Levy Capital Replacement Fund reported an increase in fund balance of \$23,411.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2018***

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 2018 the Village amended its General Fund budget several times.

For the General Fund, budget basis revenue of \$1,548,137 and budget basis expenditures of \$1,493,452 were both lower than original and final budget estimates due to budgeted Safe Route to Schools grants which did not occur in 2018. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018 the Village had \$16,661,978 net of accumulated depreciation invested in land, construction in progress, buildings, improvements, machinery, equipment and infrastructure. Of this total, \$7,484,954 was related to governmental activities and \$9,177,024 to the business-type activities. The following tables show fiscal year 2018 and 2017 balances:

	Governmental Activities		Increase (Decrease)
	2018	2017	
Land	\$295,074	\$295,074	\$0
Buildings	839,024	798,984	40,040
Improvements Other than Buildings	308,628	196,328	112,300
Machinery and Equipment	3,631,698	3,674,180	(42,482)
Infrastructure	7,212,996	6,830,773	382,223
Less: Accumulated Depreciation	(4,802,466)	(4,401,792)	(400,674)
Totals	<u>\$7,484,954</u>	<u>\$7,393,547</u>	<u>\$91,407</u>

Additions to buildings included a new HVAC system for the police department as well as park pavilion improvements. Improvement additions were the result of tennis court resurfacing. Changes to machinery and equipment included the purchase of a fire hose, boom cutter, and pressure washer, as well as the disposal of a street sweeper, and truck. The increase in infrastructure can be attributed to routine street maintenance.

VILLAGE OF EAST PALESTINE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2018**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2018	2017	
Land	\$177,511	\$177,511	\$0
Construction in Progress	723,833	210,708	513,125
Buildings	2,079,874	2,079,874	0
Improvements Other than Buildings	1,581,627	1,581,627	0
Machinery and Equipment	1,547,736	1,548,787	(1,051)
Infrastructure	11,506,564	11,506,564	0
Less: Accumulated Depreciation	(8,440,121)	(8,119,984)	(320,137)
Totals	\$9,177,024	\$8,985,087	\$191,937

Business-Type construction in progress additions 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, 2018, the Village had \$1,680,000 in general obligation bonds outstanding, \$105,000 due within one year. The following table summarizes the Village's long-term obligations outstanding as of December 31, 2018 and 2017:

	2018	Restated 2017
Governmental Activities:		
Ohio Public Works Commission Loan	\$84,000	\$92,000
General Obligation Bonds	325,000	340,000
Long Term Promissory Notes	88,000	176,000
Capital Leases	210,295	293,178
Net Pension Liability	1,771,524	2,189,723
Net OPEB Liability	1,429,809	1,272,518
Compensated Absences	117,666	115,711
Total Governmental Activities	4,026,294	4,479,130
Business-Type Activities:		
General Obligation Bonds	1,355,000	1,615,000
Ohio Public Works Commission Loans	616,086	667,214
Ohio Water Development Authority Loans	2,594,083	2,342,892
Capital Leases	575,802	718,664
Net Pension Liability	520,666	763,115
Net OPEB Liability	336,248	319,923
Compensated Absences	112,599	112,140
Total Business-Type Activities	6,110,484	6,538,948
Totals	\$10,136,778	\$11,018,078

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, 2018, the Village's outstanding debt was below the legal limit. Additional information on the Village's long-term debt can be found in Note 13.

VILLAGE OF EAST PALESTINE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2018***

Unaudited

ECONOMIC FACTORS

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

The residents of East Palestine passed a 5 mill street levy in 2010; with collections starting in 2011 estimated collection is \$296,100. Currently in 2018 we repaved various streets in the Village. We are continuing to look at future paving projects in and 2019 using the Street Levy monies. The Street Levy was renewed for 5 more years in 2014.

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

The Village's 2019 budget is very conservative.

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

On May 7, 2019 residents voted to increase the income tax rate from 1% to 1½%.

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 Spratt, Finance Director of the Village of East Palestine.

VILLAGE OF EAST PALESTINE, OHIO

Statement of Net Position
December 31, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 819,514	\$ 734,093	\$ 1,553,607
Investments	135,446	0	135,446
Receivables:			
Taxes	1,375,605	0	1,375,605
Accounts	106,198	279,876	386,074
Intergovernmental	242,957	376	243,333
Internal Balances	35,000	(35,000)	0
Inventory of Supplies at Cost	10,826	71,505	82,331
Prepaid Items	26,370	13,899	40,269
Non-Depreciable Capital Assets	295,074	901,344	1,196,418
Depreciable Capital Assets, Net	7,189,880	8,275,680	15,465,560
Total Assets	<u>10,236,870</u>	<u>10,241,773</u>	<u>20,478,643</u>
Deferred Outflows of Resources:			
Pension	367,165	126,991	494,156
OPEB	130,057	24,744	154,801
Total Deferred Outflows of Resources	<u>497,222</u>	<u>151,735</u>	<u>648,957</u>
Liabilities:			
Accounts Payable	59,003	23,106	82,109
Accrued Wages and Benefits	63,998	26,979	90,977
Intergovernmental Payable	2,041	2,000	4,041
Accrued Interest Payable	2,383	18,388	20,771
Noncurrent Liabilities:			
Due Within One Year	229,669	574,547	804,216
Due in More Than One Year:			
Net Pension Liability	1,771,524	520,666	2,292,190
Net OPEB Liability	1,429,809	336,248	1,766,057
Other Amounts Due in More Than One Year	595,292	4,679,023	5,274,315
Total Liabilities	<u>4,153,719</u>	<u>6,180,957</u>	<u>10,334,676</u>
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	654,452	0	654,452
Pension	266,071	128,887	394,958
OPEB	71,280	29,902	101,182
Total Deferred Inflows of Resources	<u>991,803</u>	<u>158,789</u>	<u>1,150,592</u>
Net Position:			
Net Investment in Capital Assets	6,777,659	4,599,857	11,377,516
Restricted For:			
Capital Projects	261,116	0	261,116
Other Purposes	471,966	0	471,966
Unrestricted (Deficit)	(1,922,171)	(546,095)	(2,468,266)
Total Net Position	<u>\$ 5,588,570</u>	<u>\$ 4,053,762</u>	<u>\$ 9,642,332</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Statement of Activities *For the Year Ended December 31, 2018*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,382,649	\$ 202,467	\$ 5,431	\$ 0
Leisure Time Activities	258,037	97,658	0	73,292
Public Health and Welfare	33,924	24,272	0	0
Transportation	610,581	0	312,167	192,835
General Government	611,883	74,591	0	0
Interest and Fiscal Charges	28,811	0	0	0
Total Governmental Activities	2,925,885	398,988	317,598	266,127
Business-Type Activities:				
Water	653,853	647,646	0	0
Wastewater	948,673	1,245,369	0	0
Total Business-Type Activities	1,602,526	1,893,015	0	0
Totals	\$ 4,528,411	\$ 2,292,003	\$ 317,598	\$ 266,127

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 - Restated

Net Position End of Year

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,174,751)	\$ 0	\$ (1,174,751)
(87,087)	0	(87,087)
(9,652)	0	(9,652)
(105,579)	0	(105,579)
(537,292)	0	(537,292)
(28,811)	0	(28,811)
<u>(1,943,172)</u>	<u>0</u>	<u>(1,943,172)</u>
0	(6,207)	(6,207)
0	296,696	296,696
<u>0</u>	<u>290,489</u>	<u>290,489</u>
<u>\$ (1,943,172)</u>	<u>\$ 290,489</u>	<u>\$ (1,652,683)</u>
111,538	0	111,538
576,704	0	576,704
1,031,750	0	1,031,750
502	0	502
166,372	0	166,372
24,441	0	24,441
147,430	0	147,430
<u>10,000</u>	<u>(10,000)</u>	<u>0</u>
<u>2,068,737</u>	<u>(10,000)</u>	<u>2,058,737</u>
125,565	280,489	406,054
<u>5,463,005</u>	<u>3,773,273</u>	<u>9,236,278</u>
<u>\$ 5,588,570</u>	<u>\$ 4,053,762</u>	<u>\$ 9,642,332</u>

VILLAGE OF EAST PALESTINE, OHIO

**Balance Sheet
Governmental Funds
December 31, 2018**

	General	Parks and Recreation	Capital Improvement	Street Levy Capital Replacement
Assets:				
Cash and Cash Equivalents	\$ 342,185	\$ 31,530	\$ 31,727	\$ 63,057
Investments	101,853	0	0	0
Receivables:				
Taxes	764,292	123,175	0	281,160
Accounts	103,173	0	0	0
Intergovernmental	36,021	9,340	0	22,628
Interfund Loans Receivable	2,174,136	0	0	0
Inventory of Supplies	0	0	0	0
Prepaid Items	25,542	414	0	0
Total Assets	\$ 3,547,202	\$ 164,459	\$ 31,727	\$ 366,845
Liabilities:				
Accounts Payable	\$ 53,917	\$ 1,538	\$ 0	\$ 0
Accrued Wages and Benefits Payable	52,162	2,440	0	0
Intergovernmental Payable	2,041	0	0	0
Interfund Loans Payable	0	0	2,139,136	0
Total Liabilities	108,120	3,978	2,139,136	0
Deferred Inflows of Resources:				
Unavailable Amounts	520,308	21,887	0	49,660
Property Tax Levy for Next Fiscal Year	105,958	109,946	0	252,656
Total Deferred Inflows of Resources	626,266	131,833	0	302,316
Fund Balance:				
Nonspendable	2,199,678	414	0	0
Restricted	0	28,234	0	64,529
Assigned	228,095	0	0	0
Unassigned	385,043	0	(2,107,409)	0
Total Fund Balance	2,812,816	28,648	(2,107,409)	64,529
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 3,547,202	\$ 164,459	\$ 31,727	\$ 366,845

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Other Governmental Funds	Total Governmental Funds
\$ 351,015	\$ 819,514
33,593	135,446
206,978	1,375,605
3,025	106,198
174,968	242,957
0	2,174,136
10,826	10,826
414	26,370
<u>\$ 780,819</u>	<u>\$ 4,891,052</u>
\$ 3,548	\$ 59,003
9,396	63,998
0	2,041
0	2,139,136
<u>12,944</u>	<u>2,264,178</u>
142,686	734,541
185,892	654,452
<u>328,578</u>	<u>1,388,993</u>
11,240	2,211,332
428,057	520,820
0	228,095
0	(1,722,366)
<u>439,297</u>	<u>1,237,881</u>
<u>\$ 780,819</u>	<u>\$ 4,891,052</u>

VILLAGE OF EAST PALESTINE, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2018***

Total Governmental Fund Balances		\$ 1,237,881
<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.		7,484,954
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		734,541
The net pension/OPEB 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	367,165	
Deferred Inflows - Pension	(266,071)	
Net Pension Liability	(1,771,524)	
Deferred Outflows - OPEB	130,057	
Deferred Inflows - OPEB	(71,280)	
Net OPEB Liability	<u>(1,429,809)</u>	(3,041,462)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences Payable	(117,666)	
Ohio Public Works Commission Loans Payable	(84,000)	
Capital Leases Payable	(210,295)	
Long Term Promissory Notes	(88,000)	
General Obligation Bonds Payable	(325,000)	
Accrued Interest Payable	<u>(2,383)</u>	<u>(827,344)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 5,588,570</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

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VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018**

	General	Parks and Recreation	Capital Improvement	Street Levy Capital Replacement
Revenues:				
Taxes	\$ 1,136,560	\$ 115,217	\$ 0	\$ 265,086
Intergovernmental Revenues	70,520	91,780	0	237,904
Charges for Services	188,970	97,658	0	0
Licenses and Permits	74,591	0	0	0
Investment Earnings	24,108	0	0	0
Fines and Forfeitures	10,822	0	0	0
All Other Revenue	108,911	9,628	0	6
Total Revenue	1,614,482	314,283	0	502,996
Expenditures:				
Current:				
Security of Persons and Property	980,303	0	0	0
Leisure Time Activities	0	307,811	0	0
Public Health and Welfare	0	0	0	0
Transportation	0	0	0	0
General Government	489,666	0	0	0
Capital Outlay	0	0	45,841	468,585
Debt Service:				
Principal Retirement	15,105	0	49,945	10,188
Interest & Fiscal Charges	7,670	0	13,044	812
Total Expenditures	1,492,744	307,811	108,830	479,585
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	121,738	6,472	(108,830)	23,411
Other Financing Sources (Uses):				
Sale of Capital Assets	612	0	0	0
Transfers In	20,000	0	99,364	0
Transfers Out	(106,364)	(5,000)	0	0
Total Other Financing Sources (Uses)	(85,752)	(5,000)	99,364	0
Net Change in Fund Balance	35,986	1,472	(9,466)	23,411
Fund Balance at Beginning of Year	2,776,830	27,176	(2,097,943)	41,118
Increase in Inventory	0	0	0	0
Fund Balance End of Year	\$ 2,812,816	\$ 28,648	\$ (2,107,409)	\$ 64,529

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Other Governmental Funds	Total Governmental Funds
\$ 194,969	\$ 1,711,832
341,128	741,332
26,772	313,400
0	74,591
333	24,441
175	10,997
28,885	147,430
<u>592,262</u>	<u>3,024,023</u>
130,377	1,110,680
41,437	349,248
31,247	31,247
282,400	282,400
0	489,666
7,664	522,090
118,645	193,883
8,439	29,965
<u>620,209</u>	<u>3,009,179</u>
(27,947)	14,844
0	612
7,000	126,364
(5,000)	(116,364)
<u>2,000</u>	<u>10,612</u>
(25,947)	25,456
458,634	1,205,815
6,610	6,610
<u>\$ 439,297</u>	<u>\$ 1,237,881</u>

VILLAGE OF EAST PALESTINE, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 25,456

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	572,366	
Depreciation Expense	(464,289)	108,077

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.		(16,670)
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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.		17,427
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	170,848	
OPEB	2,022	172,870

Except for amounts reported as deferred inflows/outflows, changes in the net pension and OPEB liabilities are reported as pension/OPEB expense in the statement of activities:

Pension	(271,731)	
OPEB	(108,697)	(380,428)

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.

Ohio Public Works Commission Loan Retirement	8,000	
General Obligation Bond Retirement	15,000	
Capital Lease Retirement	82,883	
Long Term Promissory Note Retirement	88,000	193,883

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		1,154
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(2,814)	
Change in Inventory	6,610	3,796

<i>Change in Net Position of Governmental Activities</i>		<u>\$ 125,565</u>
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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, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,055,720	\$ 1,055,720	\$ 1,107,315	\$ 51,595
Intergovernmental Revenues	429,977	429,977	70,530	(359,447)
Charges for Services	221,150	221,150	185,857	(35,293)
Licenses and Permits	73,000	73,000	79,259	6,259
Investment Earnings	10,000	10,000	24,108	14,108
Fines and Forfeitures	10,000	10,000	10,667	667
All Other Revenues	11,831	11,831	70,401	58,570
Total Revenues	1,811,678	1,811,678	1,548,137	(263,541)
Expenditures:				
Current:				
Security of Persons and Property	1,072,698	1,072,569	1,002,508	70,061
General Government	825,430	825,499	468,169	357,330
Debt Service:				
Principal Retirement	15,105	15,105	15,105	0
Interest and Fiscal Charges	7,670	7,670	7,670	0
Total Expenditures	1,920,903	1,920,843	1,493,452	427,391
Excess (Deficiency) of Revenues Over (Under) Expenditures	(109,225)	(109,165)	54,685	163,850
Other Financing Sources (Uses):				
Sale of Capital Assets	0	0	612	612
Transfers Out	(111,364)	(111,364)	(111,364)	0
Total Other Financing Sources (Uses):	(111,364)	(111,364)	(110,752)	612
Net Change in Fund Balance	(220,589)	(220,529)	(56,067)	164,462
Fund Balance at Beginning of Year	253,470	253,470	253,470	0
Prior Year Encumbrances	1,117	1,117	1,117	0
Fund Balance at End of Year	\$ 33,998	\$ 34,058	\$ 198,520	\$ 164,462

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Parks and Recreation Fund
For the Year Ended December 31, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 104,573	\$ 115,267	\$ 115,234	\$ (33)
Intergovernmental Revenue	81,716	90,072	91,780	1,708
Charges for Services	90,555	99,815	97,658	(2,157)
All Other Revenues	8,694	9,583	9,587	4
Total Revenues	285,538	314,737	314,259	(478)
Expenditures:				
Current:				
Leisure Time Activities	305,416	311,925	311,888	37
Total Expenditures	305,416	311,925	311,888	37
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(19,878)	2,812	2,371	(441)
Other Financing Sources (Uses):				
Transfers Out	0	(5,000)	(5,000)	0
Total Other Financing Sources (Uses):	0	(5,000)	(5,000)	0
Net Change in Fund Balance	(19,878)	(2,188)	(2,629)	(441)
Fund Balance at Beginning of Year	31,554	31,554	31,554	0
Prior Year Encumbrances	1,885	1,885	1,885	0
Fund Balance at End of Year	\$ 13,561	\$ 31,251	\$ 30,810	\$ (441)

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2018**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$ 335,047	\$ 399,046	\$ 734,093
Receivables:			
Accounts	89,952	189,924	279,876
Intergovernmental	162	214	376
Inventory of Supplies at Cost	56,868	14,637	71,505
Prepaid Items	6,183	7,716	13,899
Total Current Assets	488,212	611,537	1,099,749
Noncurrent Assets:			
Capital Assets, Net	2,764,639	6,412,385	9,177,024
Total Noncurrent Assets	2,764,639	6,412,385	9,177,024
Total Assets	3,252,851	7,023,922	10,276,773
Deferred Outflows of Resources:			
Pension	66,201	60,790	126,991
OPEB	12,899	11,845	24,744
Total Deferred Outflows of Resources	79,100	72,635	151,735
Liabilities:			
Current Liabilities:			
Accounts Payable	8,870	14,236	23,106
Accrued Wages and Benefits	15,734	11,245	26,979
Intergovernmental Payable	0	2,000	2,000
Compensated Absences Payable - Current	14,831	5,518	20,349
Accrued Interest Payable	10,982	7,406	18,388
Capital Leases Payable - Current	46,495	100,489	146,984
General Obligation Bonds Payable - Current	0	90,000	90,000
OWDA Loans Payable - Current	31,582	234,504	266,086
OPWC Loans Payable - Current	15,934	35,194	51,128
Total Current Liabilities	144,428	500,592	645,020
Noncurrent Liabilities:			
Capital Leases Payable	128,645	300,173	428,818
General Obligation Bonds Payable	0	1,265,000	1,265,000
OWDA Loans Payable	944,968	1,383,029	2,327,997
OPWC Loans Payable	242,491	322,467	564,958
Compensated Absences Payable	69,993	22,257	92,250
Interfund Loans Payable	10,000	25,000	35,000
Net Pension Liability	271,425	249,241	520,666
Net OPEB Liability	175,287	160,961	336,248
Total Noncurrent Liabilities	1,842,809	3,728,128	5,570,937
Total Liabilities	1,987,237	4,228,720	6,215,957

VILLAGE OF EAST PALESTINE, OHIO

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
Deferred Inflows of Resources:			
Pension	67,189	61,698	128,887
OPEB	15,588	14,314	29,902
Total Deferred Inflows of Resources	<u>82,777</u>	<u>76,012</u>	<u>158,789</u>
Net Position:			
Net Investment in Capital Assets	1,523,665	3,076,192	4,599,857
Unrestricted	(261,728)	(284,367)	(546,095)
Total Net Position	<u>\$ 1,261,937</u>	<u>\$ 2,791,825</u>	<u>\$ 4,053,762</u>

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2018**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
Operating Revenues:			
Charges for Services	\$ 610,247	\$ 1,233,528	\$ 1,843,775
Total Operating Revenues	610,247	1,233,528	1,843,775
Operating Expenses:			
Personal Services	345,795	415,764	761,559
Contractual Services	138,336	152,779	291,115
Materials and Supplies	59,811	37,436	97,247
Depreciation	80,583	240,605	321,188
Total Operating Expenses	624,525	846,584	1,471,109
Operating Income (Loss)	(14,278)	386,944	372,666
Non-Operating Revenue (Expenses):			
Interest and Fiscal Charges	(29,328)	(102,089)	(131,417)
Other Nonoperating Revenue	37,399	11,841	49,240
Total Non-Operating Revenues (Expenses)	8,071	(90,248)	(82,177)
Income (Loss) Before Transfers	(6,207)	296,696	290,489
Transfers:			
Transfers-Out	(5,000)	(5,000)	(10,000)
Total Transfers	(5,000)	(5,000)	(10,000)
Change in Net Position	(11,207)	291,696	280,489
Net Position Beginning of Year - Restated	1,273,144	2,500,129	3,773,273
Net Position End of Year	\$ 1,261,937	\$ 2,791,825	\$ 4,053,762

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, 2018

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Wastewater	
Cash Flows from Operating Activities:			
Cash Received from Customers	\$647,638	\$1,243,057	\$1,890,695
Cash Payments for Goods and Services	(207,430)	(195,078)	(402,508)
Cash Payments to Employees	(340,186)	(343,637)	(683,823)
Net Cash Provided by Operating Activities	100,022	704,342	804,364
Cash Flows from Noncapital Financing Activities:			
Transfers Out to Other Funds	(5,000)	(5,000)	(10,000)
Net Cash Used by Noncapital Financing Activities	(5,000)	(5,000)	(10,000)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Assets	(103,885)	(409,240)	(513,125)
Capital Lease Principal Payment	(45,192)	(97,670)	(142,862)
Principal Paid on Ohio Water Development Authority Loans	(30,678)	(231,256)	(261,934)
Proceeds from Ohio Water Development Authority Loans	103,885	409,240	513,125
Principal Paid on General Obligation Bonds	(26,250)	(233,750)	(260,000)
Principal Paid on Ohio Public Works Commission Loans	(15,934)	(35,194)	(51,128)
Interest Paid on All Debt	(29,839)	(104,108)	(133,947)
Net Cash Used by Capital and Related Financing Activities	(147,893)	(701,978)	(849,871)
Decrease in Cash and Cash Equivalents	(52,871)	(2,636)	(55,507)
Cash and Cash Equivalents at Beginning of Year	387,918	401,682	789,600
Cash and Cash Equivalents at End of Year	\$335,047	\$399,046	\$734,093
Reconciliation of Operating Income (Loss) to Net Cash			
Provided by Operating Activities:			
Operating Income (Loss)	(\$14,278)	\$386,944	\$372,666
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	80,583	240,605	321,188
Miscellaneous Nonoperating Revenue	36,707	8,280	44,987
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:			
Decrease in Accounts Receivable	684	1,249	1,933
Increase in Inventory	(4,825)	(3,269)	(8,094)
Increase in Prepaid Items	(263)	(669)	(932)
Decrease in Deferred Outflows	99,644	44,493	144,137
Increase (Decrease) in Accounts Payable	(3,269)	215	(3,054)
Decrease in Intergovernmental Payable	0	(600)	(600)
Increase in Accrued Wages and Benefits	2,252	1,300	3,552
Increase (Decrease) in Compensated Absences	3,837	(3,378)	459
Decrease in Net Pension Liability	(189,593)	(52,856)	(242,449)
Increase in Net OPEB Liability	8,510	7,815	16,325
Increase in Deferred Inflows	80,033	74,213	154,246
Total Adjustments	114,300	317,398	431,698
Net Cash Provided by Operating Activities	\$100,022	\$704,342	\$804,364

See accompanying notes to the basic financial statements

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

B. Basis of Presentation - Fund Accounting

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

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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.

Parks and Recreation Fund – This fund is used to account for a 3 mill property tax levy to support park operations.

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

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

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

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

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

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

C. Basis of Presentation – Financial Statements

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

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

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

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

D. Basis of Accounting

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018 but which are not intended to finance 2018 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 6.

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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 2018.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

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

4. Lapsing of Appropriations

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

5. Budgetary Basis of Accounting

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

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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	Parks and Recreation Fund
GAAP Basis (as reported)	\$35,986	\$1,472
Increase (Decrease):		
Accrued Revenues at December 31, 2018 received during 2019	(277,220)	(682)
Accrued Revenues at December 31, 2017 received during 2018	222,595	658
Accrued Expenditures at December 31, 2018 paid during 2019	108,120	3,978
Accrued Expenditures at December 31, 2017 paid during 2018	(69,762)	(7,337)
2017 Prepays for 2018	23,113	416
2018 Prepays for 2019	(25,542)	(414)
Outstanding Encumbrances	(36,637)	(720)
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(36,720)	0
Budget Basis	(\$56,067)	(\$2,629)

F. Cash and Cash Equivalents

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

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018 the Village reported \$135,446 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 2018, 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 \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 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, 2018, 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, 2018

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

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2018***

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

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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. Pension/OPEB

The provision for pension/OPEB cost is recorded when the related payroll is accrued and the obligation is incurred. For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB 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/OPEB 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

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018.

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

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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 2018.

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/OPEB amounts on the government-wide and proprietary funds statement of net position. See Notes 11 and 12.

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/OPEB are reported on the government-wide and proprietary funds statement of net position. See Notes 11 and 12.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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

For 2018, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” Statement No. 85, “Omnibus 2017,” and Statement No. 86, “Certain Debt Extinguishment Issues.”

GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The implementation of GASB 75 had the following effect on net position as reported December 31, 2017:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>
Net position December 31, 2017	\$6,727,362	\$4,088,899	\$1,437,325	\$2,651,574
Adjustments:				
Net OPEB Liability	(1,272,518)	(319,923)	(166,777)	(153,146)
Deferred Outflow - Payments Subsequent to the Measurement Date	8,161	4,297	2,596	1,701
Restated Net Position December 31, 2017	<u>\$5,463,005</u>	<u>\$3,773,273</u>	<u>\$1,273,144</u>	<u>\$2,500,129</u>

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

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficit at December 31, 2018 of \$2,107,409 in the Capital Improvement Fund (capital projects fund) arises from the recognition of an interfund loan payable on the modified accrual 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, 2018

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	Parks and Recreation Fund	Capital Improvement Fund	Street Levy Capital Replacement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid Items	\$25,542	\$414	\$0	\$0	\$414	\$26,370
Supplies Inventory	0	0	0	0	10,826	10,826
Interfund Loans Receivable	2,174,136	0	0	0	0	2,174,136
Total Nonspendable	2,199,678	414	0	0	11,240	2,211,332
Restricted:						
Fire Capital Improvements	0	0	0	0	69,006	69,006
Police Capital Improvements	0	0	0	0	44,198	44,198
Street Capital Improvements	0	0	0	64,529	0	64,529
Park Capital Improvements	0	0	0	0	5,608	5,608
Community Development and Improvement	0	0	0	0	117,373	117,373
Street Maintenance and Repair	0	0	0	0	133,560	133,560
EMS Training	0	0	0	0	1,840	1,840
Parks and Recreation	0	28,234	0	0	0	28,234
Cemetery Maintenance	0	0	0	0	36,998	36,998
Law Enforcement	0	0	0	0	19,474	19,474
Total Restricted	0	28,234	0	64,529	428,057	520,820
Assigned:						
Services and Supplies	4,125	0	0	0	0	4,125
Compensated Absences	60,141	0	0	0	0	60,141
Budget Resource	163,829	0	0	0	0	163,829
Total Assigned	228,095	0	0	0	0	228,095
Unassigned (Deficits):	385,043	0	(2,107,409)	0	0	(1,722,366)
Total Fund Balances	\$2,812,816	\$28,648	(\$2,107,409)	\$64,529	\$439,297	\$1,237,881

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

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

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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, 2018, the carrying amount of the Village's deposits was \$1,615,219 and the bank balance was \$1,633,604. Of the bank balance, \$1,487,293 was covered by federal depository insurance and \$146,311 was exposed to custodial risk and was collateralized with securities held in the Ohio Pooled Collateral System.

Investment earnings of \$20,689 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The Village's investments at December 31, 2018 are summarized below:

	Fair Value ²	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$73,834	AAAm ¹	\$73,834	\$0	\$0
Total Investments	<u>\$73,834</u>		<u>\$73,834</u>	<u>\$0</u>	<u>\$0</u>

¹ Standard & Poor's

² 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

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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	\$1,553,607	\$135,446
Certificates of Deposit (with maturities of more than 3 months)	135,446	(135,446)
Investments:		
STAR Ohio	(73,834)	73,834
Per GASB Statement No. 3	<u>\$1,615,219</u>	<u>\$73,834</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 2018 were levied after October 1, 2017 on assessed values as of January 1, 2017, 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

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018 was \$13.90 per \$1,000 of assessed value. The assessed value upon which the 2018 tax levy was based was \$62,470,720. This amount constitutes \$58,302,860 in real property assessed value and \$4,167,860 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, 2018 consisted of taxes, accounts, interfund loans, and intergovernmental receivables.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2018:

Fund	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$20,000	\$106,364
Parks and Recreation Fund	0	5,000
Capital Improvement Fund	99,364	0
Other Governmental Funds	7,000	5,000
Total Governmental Funds	126,364	116,364
Proprietary Funds:		
Water Fund	0	5,000
Wastewater Fund	0	5,000
Total Proprietary Funds	0	10,000
Totals	\$126,364	\$126,364

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund loans receivable and payable for all funds for 2018:

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, 2018**

NOTE 10 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2018:

Historical Cost:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
Capital assets not being depreciated:				
Land	\$295,074	\$0	\$0	\$295,074
Subtotal	295,074	0	0	295,074
Capital assets being depreciated:				
Buildings	798,984	40,040	0	839,024
Improvements Other than Buildings	196,328	112,300	0	308,628
Machinery and Equipment	3,674,180	37,803	(80,285)	3,631,698
Infrastructure	6,830,773	382,223	0	7,212,996
Subtotal	11,500,265	572,366	(80,285)	11,992,346
Total Cost	\$11,795,339	\$572,366	(\$80,285)	\$12,287,420

Accumulated Depreciation:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
Buildings	(\$411,246)	(\$16,712)	\$0	(\$427,958)
Improvements Other than Buildings	(112,611)	(9,230)	0	(121,841)
Machinery and Equipment	(2,253,443)	(159,053)	63,615	(2,348,881)
Infrastructure	(1,624,492)	(279,294)	0	(1,903,786)
Total Depreciation	(\$4,401,792)	(\$464,289) *	\$63,615	(\$4,802,466)
Net Value:	<u>\$7,393,547</u>			<u>\$7,484,954</u>

*Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$118,235
Leisure Time Activities	29,132
Transportation	314,233
General Government	2,689
Total Depreciation Expense	<u>\$464,289</u>

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 10 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2018:

Historical Cost:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
Capital assets not being depreciated:				
Land	\$177,511	\$0	\$0	\$177,511
Construction in Progress	210,708	513,125	0	723,833
Subtotal	<u>388,219</u>	<u>513,125</u>	<u>0</u>	<u>901,344</u>
Capital assets being depreciated:				
Buildings	2,079,874	0	0	2,079,874
Improvements Other than Buildings	1,581,627	0	0	1,581,627
Machinery and Equipment	1,548,787	0	(1,051)	1,547,736
Infrastructure	11,506,564	0	0	11,506,564
Subtotal	<u>16,716,852</u>	<u>0</u>	<u>(1,051)</u>	<u>16,715,801</u>
Total Cost	<u>\$17,105,071</u>	<u>\$513,125</u>	<u>(\$1,051)</u>	<u>\$17,617,145</u>

Accumulated Depreciation:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
Buildings	(\$1,633,868)	(\$20,991)	\$0	(\$1,654,859)
Improvements Other than Buildings	(347,175)	(32,574)	0	(379,749)
Machinery and Equipment	(1,361,444)	(26,368)	1,051	(1,386,761)
Infrastructure	(4,777,497)	(241,255)	0	(5,018,752)
Total Depreciation	<u>(\$8,119,984)</u>	<u>(\$321,188)</u>	<u>\$1,051</u>	<u>(\$8,440,121)</u>
Net Value:	<u>\$8,985,087</u>			<u>\$9,177,024</u>

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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>
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2018 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits	<u>0.0</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 \$155,688 for 2018. Of this amount, \$17,372 is reported as an intergovernmental payable.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

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

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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>
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2018 through December 31, 2018	12.25 %	12.25 %
2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2018 through December 31, 2018	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The Village's contractually required contribution to OPF was \$79,397 for 2018. Of this amount \$9,859 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, 2017, 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The Village's proportion of the net pension liability was based on the Village's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,261,924	\$1,030,266	\$2,292,190
Proportion of the Net Pension Liability-2018	0.008044%	0.016787%	
Proportion of the Net Pension Liability-2017	<u>0.008202%</u>	<u>0.017213%</u>	
Percentage Change	<u>(0.000158%)</u>	<u>(0.000426%)</u>	
Pension Expense	\$260,193	\$122,254	\$382,447

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Changes in assumptions	\$150,808	\$44,892	\$195,700
Differences between expected and actual experience	1,289	15,635	16,924
Change in proportionate share	0	46,447	46,447
City contributions subsequent to the measurement date	<u>155,688</u>	<u>79,397</u>	<u>235,085</u>
Total Deferred Outflows of Resources	<u>\$307,785</u>	<u>\$186,371</u>	<u>\$494,156</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$270,918	\$35,641	\$306,559
Differences between expected and actual experience	24,870	1,862	26,732
Change in proportionate share	<u>16,590</u>	<u>45,077</u>	<u>61,667</u>
Total Deferred Inflows of Resources	<u>\$312,378</u>	<u>\$82,580</u>	<u>\$394,958</u>

\$235,085 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, 2019. 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&F</u>	<u>Total</u>
Year Ending December 31:			
2019	\$104,549	\$25,636	\$130,185
2020	(34,202)	16,266	(17,936)
2021	(119,297)	(20,648)	(139,945)
2022	(111,331)	(7,411)	(118,742)
2023	0	8,730	8,730
2024	<u>0</u>	<u>1,821</u>	<u>1,821</u>
Total	<u>(\$160,281)</u>	<u>\$24,394</u>	<u>(\$135,887)</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

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2017 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 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 was 16.82% for 2017.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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 2017 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 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
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. 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	\$2,240,855	\$1,261,924	\$445,790

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF

OPF’s total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, 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, 2017, are presented below:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Increases	3.25 percent
Inflation Assumptions	2.75 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent for increases based on the lesser of the increase in CPI and 3%.

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%. Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

	Age	Police	Fire
Healthy Mortality			
	67 or less	77%	68%
	68-77	105%	87%
	78 and up	115%	120%
Disabled Mortality			
	59 or less	35%	35%
	60-69	60%	45%
	70-79	75%	70%
	80 and up	100%	90%

The most recent experience study was completed for the five year period ended December 31, 2016.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2017 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 8.00 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 8.00 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.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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 8.00 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 (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Village's proportionate share of the net pension liability	\$1,428,219	\$1,030,266	\$705,699

NOTE 12 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Village's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the Village does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care 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 postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty 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 meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

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 percent 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 percent 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 into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Village's contractually required contribution was \$0 for 2018.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2018***

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

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 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also 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 contractually required contribution to OP&F was \$2,022 for 2018. Of this amount, \$251 is reported as an intergovernmental payable.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The Village's proportion of the net OPEB liability was based on the Village's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$814,955	\$951,102	\$1,766,057
Proportion of the Net OPEB Liability-2018	0.007505%	0.016787%	
Proportion of the Net OPEB Liability-2017	<u>0.007677%</u>	<u>0.017213%</u>	
Percentage Change	<u>(0.000172%)</u>	<u>(0.000426%)</u>	
OPEB Expense	\$108,697	\$25,780	\$134,477

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

At December 31, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Changes in assumptions	\$59,338	\$92,807	\$152,145
Differences between expected and actual experience	634	0	634
City contributions subsequent to the measurement date	0	2,022	2,022
Total Deferred Outflows of Resources	\$59,972	\$94,829	\$154,801
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$60,708	\$6,261	\$66,969
Differences between expected and actual experience	0	4,797	4,797
Change in proportionate share	11,763	17,653	29,416
Total Deferred Inflows of Resources	\$72,471	\$28,711	\$101,182

\$2,022 reported as deferred outflows of resources related to OPEB resulting from Village contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2019	\$7,872	\$8,721	\$16,593
2020	7,872	8,721	16,593
2021	(13,066)	8,721	(4,345)
2022	(15,177)	8,720	(6,457)
2023	0	10,286	10,286
2024	0	10,286	10,286
2025	0	8,641	8,641
Total	(\$12,499)	\$64,096	\$51,597

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

The long-term expected rate of return on health care 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.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. 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 Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	<u>100.00 %</u>	<u>4.98 %</u>

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Sensitivity of the Village's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the Village's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the Village's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
Village's proportionate share of the net OPEB liability	\$1,082,703	\$814,955	\$598,349

Sensitivity of the Village's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
Village's proportionate share of the net OPEB liability	\$779,738	\$814,955	\$851,333

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, 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.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 12 - DEFINED BENEFIT OPEB 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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016. The prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB 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 expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	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 Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

* levered 2x

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F'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 the 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 OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Village's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
Village's proportionate share of the net OPEB liability	\$1,188,889	\$951,102	\$768,135

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Sensitivity of the Village's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
Village's proportionate share of the net OPEB liability	\$738,833	\$951,102	\$1,237,169

Changes between Measurement Date and Report Date

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the Village's NOL is not known.

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 13 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the Village at December 31, 2018 were as follows:

			Restated Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018	Amount Due Within One Year
Governmental Activities:							
Ohio Public Works Commission Loan:							
Bridge Replacement	0.00%	2029	\$92,000	\$0	(\$8,000)	\$84,000	\$8,000
General Obligation Bonds:							
Various Purpose	4.75%	2033	340,000	0	(15,000)	325,000	15,000
Long Term Promissory Note:							
Fire Truck	2.23%	2019	176,000	0	(88,000)	88,000	88,000
Capital Leases			293,178	0	(82,883)	210,295	85,606
Net Pension Liability:							
Ohio Public Employees Retirement System			1,099,481	0	(358,223)	741,258	0
Ohio Police and Fire Pension Fund			1,090,242	0	(59,976)	1,030,266	0
Total Net Pension Liability			2,189,723	0	(418,199)	1,771,524	0
Net OPEB Liability:							
Ohio Public Employees Retirement System			455,464	23,243	0	478,707	0
Ohio Police and Fire Pension Fund			817,054	134,048	0	951,102	0
Total Net OPEB Liability			1,272,518	157,291	0	1,429,809	0
Compensated Absences Payable			115,711	38,079	(36,124)	117,666	33,063
Total Governmental Activities			\$4,479,130	\$195,370	(\$648,206)	\$4,026,294	\$229,669

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

A. Governmental Activities (Continued)

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, 2018, the loan had an outstanding balance of \$84,000.

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, 2018, the bonds had an outstanding balance of \$325,000.

Long Term Promissory Notes - 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, 2018, the loan had an outstanding balance of \$88,000.

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VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

				Restated				
				Balance			Balance	Amount Due
				December 31,	Additions	Deductions	December 31,	Within
				2017			2018	One Year
Business-Type Activities:								
General Obligation Bonds:								
Various Purpose Refunding Bon	2.0-3.25%	2018	\$175,000	\$0	(\$175,000)	\$0	\$0	\$0
Sewerage System Refunding Bo	2.25-5.0%	2031	1,440,000	0	(85,000)	1,355,000	90,000	90,000
Total General Obligation Bonds:			1,615,000	0	(260,000)	1,355,000	90,000	90,000
Ohio Public Works Commission Loans:								
Phase Five Sanitary Sewer	0.00%	2025	215,600	0	(26,950)	188,650	26,950	26,950
Brookdale Water	0.00%	2039	75,959	0	(3,534)	72,425	3,534	3,534
Brookdale Sewer	0.00%	2039	177,255	0	(8,244)	169,011	8,244	8,244
Water Storage Facility	0.00%	2033	198,400	0	(12,400)	186,000	12,400	12,400
Total OPWC Loans:			667,214	0	(51,128)	616,086	51,128	51,128
Ohio Water Development Authority Loans:								
Sewer Project - Phase Two	2.20%	2020	185,833	0	(73,114)	112,719	74,731	74,731
Wastewater Treatment Plant	1.00%	2025	1,005,823	0	(121,382)	884,441	122,600	122,600
Waterline Extension	3.95%	2038	72,367	0	(2,266)	70,101	2,357	2,357
Sewer Line Extension	3.95%	2038	48,115	0	(1,507)	46,608	1,567	1,567
WWTP Phosphorous Reduction	1.00%	2030	32,433	0	(2,448)	29,985	2,473	2,473
Water Booster Station	4.14%	2032	221,540	0	(11,419)	210,121	11,897	11,897
Moore Lane	2.00%	2042	236,805	0	(7,384)	229,421	7,532	7,532
Wheathill Reservoir	1.94%	2043	329,268	0	(9,609)	319,659	9,796	9,796
Sewer System Improvements	1.00%	2022	167,344	0	(32,805)	134,539	33,133	33,133
Water Pump House	3.06%	2023	43,364	103,885	0	147,249	0	0
Wastewater Treatment Plant	0.00%	2024	0	409,240	0	409,240	0	0
Total OWDA Loans:			2,342,892	513,125	(261,934)	2,594,083	266,086	266,086
Capital Leases			718,664	0	(142,862)	575,802	146,984	146,984
Net Pension Liability:								
Ohio Public Employees Retirement System			763,115	0	(242,449)	520,666	0	0
Net OPEB Liability:								
Ohio Public Employees Retirement System			319,923	16,325	0	336,248	0	0
Compensated Absences			112,140	18,139	(17,680)	112,599	20,349	20,349
Total Business-Type Activities			\$6,538,948	\$547,589	(\$976,053)	\$6,110,484	\$574,547	\$574,547

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018, the loan had an outstanding balance of \$112,719.

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, 2018, the loan had an outstanding balance of \$884,441.

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, 2018, the loan had an outstanding balance of \$70,101.

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, 2018, the loan had an outstanding balance of \$46,608.

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, 2018, the loan had an outstanding balance of \$29,985.

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, 2018, the loan had an outstanding balance of \$210,121.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018, the loan had an outstanding balance of \$229,421.

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, 2018, the loan had an outstanding balance of \$319,659.

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 began 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, 2018, the loan had an outstanding balance of \$134,539.

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, 2018, the Village had received \$147,249. As of December 31, 2018, the loan has not been finalized and there is no amortization schedule for the loan.

OWDA Loan - In 2018, the Village entered into an agreement with the Ohio Water Development Authority to receive a loan for wastewater treatment plant improvements. The interest rate on the loan is 0% per annum. This loan is payable from sewer service charges. The loan can only be received by the Village in increments as the project is completed. As of December 31, 2018, the Village had received \$409,240. As of December 31, 2018, 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, 2018, the loan had an outstanding balance of \$188,650.

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, 2018, the loan had an outstanding balance of \$241,436.

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

B. Business-Type Activities (Continued)

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, 2018, the loan had an outstanding balance of \$186,000.

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 \$1,406,000 at December 31, 2018, 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, 2018**

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, 2018 follows:

Years	Governmental Activities					
	OPWC Loan		General Obligation Bonds		Promissory Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
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	8,000	0	20,000	12,350	0	0
2024-2028	40,000	0	110,000	47,262	0	0
2029-2033	4,000	0	130,000	19,002	0	0
Totals	\$84,000	\$0	\$325,000	\$136,090	\$88,000	\$1,962

Years	Business-Type Activities					
	General Obligation Bonds		OWDA Loans		OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$90,000	\$61,626	\$266,086	\$35,730	\$51,128	\$0
2020	90,000	58,026	231,924	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	105,000	46,126	167,505	23,182	51,128	0
2024-2028	600,000	155,252	476,898	83,442	150,612	0
2029-2033	275,000	20,750	211,220	47,049	120,890	0
2034-2038	0	0	159,087	23,561	71,290	0
2039-2043	0	0	121,158	6,927	17,654	0
2044	0	0	7,898	77	0	0
Totals	\$1,355,000	\$446,832	\$2,037,594	\$305,866	\$616,086	\$0

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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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, 2018:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$92,718	\$163,618
2020	58,460	151,280
2021	37,146	151,280
2022	37,146	151,280
Minimum Lease Payments	<u>225,470</u>	<u>617,458</u>
Less amount representing interest at the Village's incremental borrowing rate of interest	<u>(15,175)</u>	<u>(41,656)</u>
Present value of minimum lease payments	<u>\$210,295</u>	<u>\$575,802</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

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2018***

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, 2018 PEP retained \$500,000 for casualty claims and \$250,000 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 auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets	\$49,921,998	\$44,452,326
Liabilities	<u>(14,676,199)</u>	<u>(13,004,011)</u>
Net Position	<u>\$35,245,799</u>	<u>\$31,448,315</u>

At December 31, 2017 and 2018, respectively, the liabilities above include approximately \$11.8 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million and \$11.8 million of unpaid claims to be billed. The Pool's membership increased from 527 members in 2017 to 538 members in 2018. These amounts will be included in future contributions from members when the related claims are due for payment.

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
2018	\$72,833

VILLAGE OF EAST PALESTINE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2018**

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, 2018:

Project	Remaining Contractual Commitment	Expected Date of Completion
Water Treatment Plant Improvements	\$64,133	September 2019
Wastewater Treatment Plant Improvements	429,406	June 2020
	<u>\$493,539</u>	

At December 31, 2018 the Village had encumbrance commitments in the Governmental Funds as follows:

Fund	Encumbrances
General Fund	\$36,637
Parks and Recreation Fund	720
Other Governmental Funds	507
Total Governmental Funds	<u>\$37,864</u>

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2018***

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, 2018.

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated For the year 2018</u>
<i>Community Reinvestment Area (CRA)</i>	
Nursing Homes	\$37,165
Medical Clinics	209
Residential	10,990

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 2018:

Nursing Home	\$10,188
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VILLAGE OF EAST PALESTINE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

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.

NOTE 19 – SUBSEQUENT EVENTS

On May 7, 2019 residents voted to increase the income tax rate from 1% to 1½%.

On September 9, 2019 the Village passed ordinance 17-2019, which eliminated the interfund loans due to the General Fund from the Capital Improvement Fund, Water Fund, and Wastewater Fund.

VILLAGE OF EAST PALESTINE, OHIO

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF EAST PALESTINE, OHIO

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

Ohio Public Employees Retirement System

Fiscal Year	2014	2015	2016	2017	2018
Village's proportion of the net pension liability (asset)	0.008241%	0.008241%	0.008037%	0.008202%	0.008044%
Village's proportionate share of the net pension liability (asset)	\$971,506	\$993,958	\$1,392,184	\$1,862,596	\$1,261,924
Village's covered payroll	\$964,362	\$995,042	\$981,975	\$992,225	\$1,048,708
Village's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	100.74%	99.89%	141.77%	187.72%	120.33%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%	77.25%	84.66%

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

Ohio Police and Fire Pension Fund

Fiscal Year	2014	2015	2016	2017	2018
Village's proportion of the net pension liability (asset)	0.016896%	0.016896%	0.015934%	0.017213%	0.016787%
Village's proportionate share of the net pension liability (asset)	\$822,869	\$875,263	\$1,025,052	\$1,090,242	\$1,030,266
Village's covered payroll	\$346,505	\$353,944	\$359,597	\$383,269	\$393,849
Village's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	237.48%	247.29%	285.06%	284.46%	261.59%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%	68.36%	70.91%

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's Pension Contributions
Last Six Years***

Ohio Public Employees Retirement System

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

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

Ohio Police and Fire Pension Fund

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

VILLAGE OF EAST PALESTINE, OHIO

<u>2017</u>	<u>2018</u>
\$136,332	\$155,688
<u>136,332</u>	<u>155,688</u>
<u>\$0</u>	<u>\$0</u>
\$1,048,708	\$1,112,057
13.00%	14.00%

<u>2017</u>	<u>2018</u>
\$77,294	\$79,397
<u>77,294</u>	<u>79,397</u>
<u>\$0</u>	<u>\$0</u>
\$393,849	\$404,301
19.63%	19.64%

VILLAGE OF EAST PALESTINE, OHIO

***Schedule of Village's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability
Last Two Years***

Ohio Public Employees Retirement System

Year	<u>2017</u>	<u>2018</u>
Village's proportion of the net OPEB liability (asset)	0.007677%	0.007505%
Village's proportionate share of the net OPEB liability (asset)	\$775,387	\$814,955
Village's covered payroll	\$992,225	\$1,048,708
Village's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	78.15%	77.71%
Plan fiduciary net position as a percentage of the total OPEB liability	54.50%	54.14%

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

Ohio Police and Fire Pension Fund

Year	<u>2017</u>	<u>2018</u>
Village's proportion of the net OPEB liability (asset)	0.017213%	0.016787%
Village's proportionate share of the net OPEB liability (asset)	\$817,054	\$951,102
Village's covered payroll	\$383,269	\$393,849
Village's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	213.18%	241.49%
Plan fiduciary net position as a percentage of the total OPEB liability	15.96%	14.13%

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

Notes: The Village implemented GASB Statement 75 in 2018.

Information prior to 2017 is not available.

The schedule is reported as of the measurement date of the Net OPEB Liability

VILLAGE OF EAST PALESTINE, OHIO

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VILLAGE OF EAST PALESTINE, OHIO

***Schedule of Village's Other Postemployment Benefit (OPEB) Contributions
Last Six Years***

Ohio Public Employees Retirement System

Year	2013	2014	2015	2016
Contractually required contribution	\$9,644	\$19,901	\$19,640	\$19,845
Contributions in relation to the contractually required contribution	<u>9,644</u>	<u>19,901</u>	<u>19,640</u>	<u>19,845</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Village's covered payroll	\$964,362	\$995,042	\$981,975	\$992,225
Contributions as a percentage of covered payroll	1.00%	2.00%	2.00%	2.00%

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

Ohio Police and Fire Pension Fund

Year	2013	2014	2015	2016
Contractually required contribution	\$12,915	\$1,770	\$1,798	\$1,916
Contributions in relation to the contractually required contribution	<u>12,915</u>	<u>1,770</u>	<u>1,798</u>	<u>1,916</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Village's covered payroll	\$346,505	\$353,944	\$359,597	\$383,269
Contributions as a percentage of covered payroll	3.73%	0.50%	0.50%	0.50%

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

Notes: The Village implemented GASB Statement 75 in 2018.

Information prior to 2013 is not available.

VILLAGE OF EAST PALESTINE, OHIO

<u>2017</u>	<u>2018</u>
\$10,488	\$0
<u>10,488</u>	<u>0</u>
<u>\$0</u>	<u>\$0</u>
\$1,048,708	\$1,112,057
1.00%	0.00%

<u>2017</u>	<u>2018</u>
\$1,970	\$2,022
<u>1,970</u>	<u>2,022</u>
<u>\$0</u>	<u>\$0</u>
\$393,849	\$404,301
0.50%	0.50%

VILLAGE OF EAST PALESTINE, OHIO

Notes to the Required Supplemental Information For the Year Ended December 31, 2018

NET PENSION LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2018.

Changes in assumptions:

2014-2016: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2017: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date:

- Reduction in actuarial assumed rate of return from 8.00% to 7.50%
- Decrease in wage inflation from 3.75% to 3.25%
- Change in future salary increases from a range of 4.25%-10.02% to 3.25%-10.75%

2018: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2018.

Changes in assumptions:

2014-2017: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2018: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date:

- Reduction in actuarial assumed rate of return from 8.25% to 8.00%
- Decrease salary increases from 3.75% to 3.25%
- Change in payroll growth from 3.75% to 3.25%
- Reduce DROP interest rate from 4.5% to 4.0%
- Reduce CPI-based COLA from 2.6% to 2.2%
- Inflation component reduced from 3.25% to 2.75%

VILLAGE OF EAST PALESTINE, OHIO

***Notes to the Required Supplemental Information
For the Year Ended December 31, 2018***

NET OPEB LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: For 2018, there were no changes in benefit terms.

Changes in assumptions: For 2018, the single discount rate changed from 4.23% to 3.85%.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: For 2018, there were no changes in benefit terms.

Changes in assumptions: For 2018, the single discount rate changed from 3.79% to 3.24%.

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OHIO AUDITOR OF STATE KEITH FABER



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700 Chase Tower
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(330) 438-0617 or (800) 443-9272
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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 end December 31, 2018, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 2, 2019, wherein we noted the Village adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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.



Keith Faber
Auditor of State

Columbus, Ohio

October 2, 2019



Village of East Palestine

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Emergency Medical Services	Fully Corrected	

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OHIO AUDITOR OF STATE KEITH FABER



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
NOVEMBER 7, 2019**