

CITY OF GERMANTOWN



Basic Financial Statements – Modified Cash Basis December 31, 2017

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Trustees
City of Germantown
75 North Walnut Street
Germantown, Ohio 45327

We have reviewed the *Independent Auditor's Report* of the City of Germantown, Montgomery County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

July 25, 2019

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INDEPENDENT AUDITOR'S REPORT

City of Germantown
Montgomery County
75 North Walnut Street
Germantown, Ohio 45327

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Germantown (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statements 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 City'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 to opine on the effectiveness of the City'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 significant accounting estimates, as well as our evaluation the overall financial statement presentation.

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in modified cash financial position for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019 on our consideration of the City'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 City's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Dayton, Ohio
June 25, 2019

City of Germantown, Ohio
Statement of Net Position - Modified Cash Basis
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$4,292,553	\$1,461,657	\$5,754,210
Total Assets	4,292,553	1,461,657	5,754,210
Net Position:			
Restricted for:			
Senior Citizen	209,406	0	209,406
Street Improvements	192,733	0	192,733
Motor Vehicle License and Permissive Taxes	226,786	0	226,786
Street Lights	126,837	0	126,837
Emergency Medical Services	852,945	0	852,945
Fire Services	1,027,329	0	1,027,329
Capital Projects	989,186	0	989,186
Permanent Fund	25,649	0	25,649
Other Purposes	172,386	0	172,386
Unrestricted	469,296	1,461,657	1,930,953
Total Net Position	\$4,292,553	\$1,461,657	\$5,754,210

See accompanying notes to the basic financial statements.

City of Germantown, Ohio
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended December 31, 2017

	Cash Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$518,578	\$62,470	\$0	\$0	(\$456,108)	\$0	(\$456,108)
Public Safety	2,171,991	146,709	1,099,754	0	(925,528)	0	(925,528)
Community Environment	89,440	10,919	0	0	(78,521)	0	(78,521)
Recreation	310	4,000	0	0	3,690	0	3,690
Transportation	380,882	94,760	344,262	64,023	122,163	0	122,163
Other	53,146	0	0	0	(53,146)	0	(53,146)
Capital Outlay	704,478	0	0	0	(704,478)	0	(704,478)
Debt Service:							
Principal	161,975	0	0	0	(161,975)	0	(161,975)
Interest and Other Charges	57,923	0	0	0	(57,923)	0	(57,923)
Total Governmental Activities	4,138,723	318,858	1,444,016	64,023	(2,311,826)	0	(2,311,826)
Business-Type Activities:							
Water	857,014	600,090	0	0	0	(256,924)	(256,924)
Sewer	1,067,949	815,891	0	0	0	(252,058)	(252,058)
Refuse	466,545	495,163	0	0	0	28,618	28,618
Stormwater	244,544	53,895	0	0	0	(190,649)	(190,649)
Swimming Pool	176,818	48,222	0	195,000	0	66,404	66,404
Recreation	144,946	0	0	149,000	0	4,054	4,054
Total Business-Type Activities	2,957,816	2,013,261	0	344,000	0	(600,555)	(600,555)
Totals	\$7,096,539	\$2,332,119	\$1,444,016	\$408,023	(2,311,826)	(600,555)	(2,912,381)

General Receipts:			
Income Taxes	1,223,528	0	1,223,528
Property Taxes Levied for:			
General Purposes	315,584	0	315,584
Special Revenue Purposes	295,383	0	295,383
Grants and Entitlements, Not Restricted	111,549	0	111,549
Payments in Lieu of Taxes	49,322	0	49,322
Investment Earnings	45,336	0	45,336
Other Receipts	176,917	38,517	215,434
Long-Term Capital-Related Debt Issued	435,452	439,975	875,427
Issuance of Refunded Bonds	517,500	632,500	1,150,000
Payments to Bond Escrow Account	(508,143)	(621,064)	(1,129,207)
Transfers In	0	84,000	84,000
Transfers (Out)	(84,000)	0	(84,000)
Total General Receipts, Long-Term Bonds Issued and Transfers	2,578,428	573,928	3,152,356
Change in Net Position	266,602	(26,627)	239,975
Net Position - Beginning of Year, Restated	4,025,951	1,488,284	5,514,235
Net Position - End of Year	\$4,292,553	\$1,461,657	\$5,754,210

See accompanying notes to the basic financial statements.

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City of Germantown, Ohio
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
December 31, 2017

	General	Police Levy	Emergency Medical Services	Fire Services	Street Capital Improvement	EMS Capital Improvement
Assets:						
Equity in Pooled Cash and Investments	<u>\$469,296</u>	<u>\$105,733</u>	<u>\$852,945</u>	<u>\$1,027,329</u>	<u>\$0</u>	<u>\$625,883</u>
Total Assets	<u>469,296</u>	<u>105,733</u>	<u>852,945</u>	<u>1,027,329</u>	<u>0</u>	<u>625,883</u>
Fund Balances:						
Nonspendable	14,648	0	0	0	0	0
Restricted	0	105,733	852,945	1,027,329	0	625,883
Assigned	149,287	0	0	0	0	0
Unassigned	<u>305,361</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>\$469,296</u>	<u>\$105,733</u>	<u>\$852,945</u>	<u>\$1,027,329</u>	<u>\$0</u>	<u>\$625,883</u>

See accompanying notes to the basic financial statements.

Other Governmental Funds	Total Governmental Funds
<u>\$1,211,367</u>	<u>\$4,292,553</u>
<u>1,211,367</u>	<u>4,292,553</u>
25,649	40,297
1,185,718	3,797,608
0	149,287
<u>0</u>	<u>305,361</u>
<u>\$1,211,367</u>	<u>\$4,292,553</u>

City of Germantown, Ohio
Statement of Receipts, Disbursements
and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended December 31, 2017

	General	Police Levy	Emergency Medical Services	Fire Services	Street Capital Improvement	EMS Capital Improvement
Receipts:						
Property Taxes	\$315,584	\$295,383	\$0	\$0	\$0	\$0
Income Taxes	1,223,528	0	0	0	0	0
Charges for Services	0	0	144,994	0	0	0
Investment Earnings	45,323	0	0	0	0	0
Intergovernmental	111,549	44,128	312,500	552,995	64,023	0
Special Assessments	0	0	0	0	0	0
Fines, Licenses & Permits	72,704	0	0	0	0	0
Payments in Lieu of Taxes	0	0	0	0	0	0
Other Receipts	84,275	43,176	16,366	1,705	0	0
Total Receipts	1,852,963	382,687	473,860	554,700	64,023	0
Disbursements:						
Current:						
General Government	518,143	0	0	0	0	0
Public Safety	11,404	1,459,250	351,446	200,480	0	0
Community Environment	89,440	0	0	0	0	0
Recreation	310	0	0	0	0	0
Transportation	0	0	0	0	0	0
Other	53,146	0	0	0	0	0
Capital Outlay	0	0	0	0	612,483	0
Debt Service:						
Principal	55,760	0	0	0	106,215	0
Interest and Other Charges	35,682	0	0	0	22,241	0
Total Disbursements	763,885	1,459,250	351,446	200,480	740,939	0
Excess of Receipts Over (Under) Disbursements	1,089,078	(1,076,563)	122,414	354,220	(676,916)	0
Other Financing Sources (Uses):						
Issuance of Long-Term Capital-Related Debt	0	0	0	0	435,452	0
Issuance of Refunded Bonds	517,500	0	0	0	0	0
Payments to Bond Escrow Account	(508,143)	0	0	0	0	0
Advances In	156,247	0	0	0	352,711	0
Advances (Out)	(352,711)	(45,000)	0	0	(111,247)	0
Transfers In	0	1,054,560	0	0	0	100,000
Transfers (Out)	(1,096,560)	0	(100,000)	(100,000)	0	0
Total Other Financing Sources (Uses)	(1,283,667)	1,009,560	(100,000)	(100,000)	676,916	100,000
Net Change in Fund Balance	(194,589)	(67,003)	22,414	254,220	0	100,000
Fund Balance - Beginning of Year, Restated	663,885	172,736	830,531	773,109	0	525,883
Fund Balance - End of Year	\$469,296	\$105,733	\$852,945	\$1,027,329	\$0	\$625,883

See accompanying notes to the basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$0	\$610,967
0	1,223,528
1,715	146,709
13	45,336
534,393	1,619,588
93,369	93,369
6,077	78,781
49,322	49,322
31,394	176,916
<u>716,283</u>	<u>4,044,516</u>
435	518,578
149,411	2,171,991
0	89,440
0	310
380,882	380,882
0	53,146
91,995	704,478
0	161,975
0	57,923
<u>622,723</u>	<u>4,138,723</u>
<u>93,560</u>	<u>(94,207)</u>
0	435,452
0	517,500
0	(508,143)
0	508,958
0	(508,958)
100,000	1,254,560
<u>(42,000)</u>	<u>(1,338,560)</u>
<u>58,000</u>	<u>360,809</u>
151,560	266,602
<u>1,059,807</u>	<u>4,025,951</u>
<u>\$1,211,367</u>	<u>\$4,292,553</u>

City of Germantown, Ohio
Statement of Fund Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2017

	Business-Type Activities -Enterprise Funds				
	Water	Sewer	Refuse	Other Enterprise Funds	Total Business-Type Activities
Assets:					
Equity in Pooled Cash and Investments	\$440,428	\$577,095	\$105,848	\$338,286	\$1,461,657
Total Assets	440,428	577,095	105,848	338,286	1,461,657
Net Position:					
Unrestricted	440,428	577,095	105,848	338,286	1,461,657
Total Net Position	\$440,428	\$577,095	\$105,848	\$338,286	1,461,657

See accompanying notes to the basic financial statements.

City of Germantown, Ohio
Statement of Receipts, Disbursements
and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds				
	Water	Sewer	Refuse	Other Enterprise Funds	Total Business-Type Activities
Operating Receipts:					
Charges for Services	\$600,090	\$815,891	\$495,163	\$102,117	\$2,013,261
Other Receipts	1,884	21,699	72	14,862	38,517
Total Operating Receipts	601,974	837,590	495,235	116,979	2,051,778
Operating Expenses:					
Personal Services	173,413	173,009	9,681	130,958	487,061
Contractual Services	149,318	493,582	365,563	87,173	1,095,636
Materials and Supplies	33,050	21,520	91,301	18,222	164,093
Other Expense	1,242	0	0	1,735	2,977
Capital Outlay	240,281	246,806	0	313,129	800,216
Total Operating Expenses	597,304	934,917	466,545	551,217	2,549,983
Operating Income (Loss)	4,670	(97,327)	28,690	(434,238)	(498,205)
Non-Operating Receipts (Expenses):					
Principal Retirement	(229,353)	(84,268)	0	(14,233)	(327,854)
Interest and Other Fiscal Charges	(30,357)	(48,764)	0	(858)	(79,979)
Issuance of Long-Term Capital Related Debt	146,426	149,674	0	143,875	439,975
Issuance of Refunded Bonds	0	632,500	0	0	632,500
Payments to Bond Escrow Account	0	(621,064)	0	0	(621,064)
Total Non-Operating Receipts (Expenses)	(113,284)	28,078	0	128,784	43,578
Income (Loss) Before Capital Grants and Contributions, and Transfers	(108,614)	(69,249)	28,690	(305,454)	(454,627)
Capital Grants and Contributions	0	0	0	344,000	344,000
Transfers In	0	0	0	84,000	84,000
Change in Net Position	(108,614)	(69,249)	28,690	122,546	(26,627)
Net Position - Beginning of Year, Restated	549,042	646,344	77,158	215,740	1,488,284
Net Position - End of Year	\$440,428	\$577,095	\$105,848	\$338,286	\$1,461,657

See accompanying notes to the basic financial statements.

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

Note 1 – Description of the Entity

Description of the Entity

The City of Germantown, Montgomery County, (the City) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Pursuant to the provisions of Article XVIII of the Constitution of Ohio, the voters of the City adopted a charter for the government of the City in 2010. The form of government provided in the charter is known as the Mayor-Council-Manager. Council is made up of seven members elected by the qualified voters of the City at large; six are council members elected and one is separately elected Mayor. Council appoints a City Manager who is responsible to Council for the administration of all City affairs. The City provides water and sewer utilities, refuse services, park operations, pool operations, police, fire and emergency medical services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City, this includes general operations, water, sewer, refuse, recreation, police, fire and emergency medical services.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City, in that the City approves the budget, the issuance of debt, or the levying of taxes. Based on this criterion, the City has no discretely presented component unit in the basic financial statements.

The City participates in the Public Entities Pool of Ohio (PEP). PEP is a public entity risk pool, which operates as a jointly governed organization. PEP provides property and casualty coverage for its members. Note 10 to the financial statements provide additional information regarding PEP.

Note 2 – Summary of Significant Accounting Policies

These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City

Basis of Presentation

Government-wide Financial Statements

The statement of net position - modified cash basis and the statement of activities - modified cash basis display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the City's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the City. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the modified cash basis or draws from the general receipts of the City.

Fund Financial Statements

The fund financial statements report more detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the City are grouped into the category governmental.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following are the City's major governmental funds:

General Fund – This fund is the operating fund of the City and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

Police Levy – To account for the activities of the Police Levy of the City.

Emergency Medical Services – To account for the activities of the Emergency Medical Services Department of the City.

Fire Services – To account for the activities of the Fire Department of the City.

Street Capital Improvement – To accumulate for capital purchases for the City's Street Capital Improvement capital projects fund.

EMS Capital Improvement – To accumulate for capital purchases for the City's EMS Capital Improvement capital projects fund.

The other governmental funds of the City account for grants and other resources of the City whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have an internal service fund.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund – This fund accounts for provision of water treatment and distribution to the residents and commercial users of the water system.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Refuse Fund - The refuse fund accounts for the provision of refuse service to the residents and commercial users located within the City.

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on disbursements plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the City Finance Director.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the basic financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts during the fiscal year amounted to \$45,323 credited to the general fund and \$13 to the permanent fund.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Inventory and Prepaid Items

The City reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the modified cash basis of accounting.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the modified cash basis of accounting.

Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's modified cash basis of accounting.

Employer Contributions to Cost-Sharing Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and for postretirement health care benefits.

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

Pensions

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

Long-Term Obligations

The City's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception.

Net Position

Net position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The City first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position are available.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable –The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council.

City of Germantown, Ohio
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Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Equity in Pooled Cash and Investments

Monies held by the City are classified by State statute into three categories.

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Active deposits are public deposits determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

City of Germantown, Ohio
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Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited.

At year end, the City had \$350 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Investments”.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of December 31, 2017, \$2,671,028 of the City’s bank balance of \$3,378,396 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the City’s name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of December 31, 2017, the City had the following investments:

Investment Type	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
Money Market Funds	\$17,280	N/A	0.00
Negotiable Certificates of Deposits	2,532,350	Level 2	2.86
	\$2,549,630		
Portfolio Weighted Average Maturity			2.84

The City categorizes its fair value measurements with 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 above table identifies the City’s recurring fair value measurements as of December 31, 2017.

Interest Rate Risk - In accordance with the investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years, unless matched to a specified obligation or debt of the City.

Credit Risk – It is the City’s policy to limit its investments that are obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The City’s investments in money market funds and negotiable certificates of deposits were not rated by Standard and Poor’s.

City of Germantown, Ohio
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Concentration of Credit Risk – The City’s investment policy allows investments in Federal Government Securities or Instrumentalities. The City has invested 99.3% of the City’s investments in negotiable certificates of deposits and 0.7% in money market funds.

Custodial Credit Risk - The risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City’s securities are either insured and registered in the name of the City, or at least registered in the name of the City.

Note 4 – Property Tax

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes are levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The assessed values of real property and public utility tangible property upon which 2017 property tax receipts were based are as follows:

Real Property	\$88,836,340
Public Utility Personal	<u>1,748,700</u>
Total Valuation	<u><u>\$90,585,040</u></u>

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

Note 5 – Local Income Tax

The City levies a municipal income tax of 1.25% percent on substantially all earned income arising from employment, residency, or business activities within the City as well as certain income of residents earned outside of the City.

Employers within the City withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

City of Germantown, Ohio
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Note 6 – Long-Term Debt

Long-term debt outstanding at December 31, 2017 was as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities:					
OPWC Debt:					
CD08J - East Market Street Phase 1	\$10,218	\$0	(\$6,812)	\$3,406	\$3,406
CD02J - North Walnut Street Improvement	2,578	0	(2,578)	0	0
CD04J - Cherry Street Improvement Phase 1	5,208	0	(3,475)	1,733	1,733
CD06J - Cherry Street Improvement Phase 2	6,172	0	(4,114)	2,058	2,058
CD09P - Cherry Street Improvement Phase 3	112,169	0	(4,154)	108,015	4,154
CD32S - Cherry Street Improvement Phase 4	414,196	38,252	(7,541)	444,907	14,830
CD02L - Dayton Pike Resurfacing	20,457	0	(8,182)	12,275	8,182
CD28T - Cherry Street Improvement Phase 5	0	397,200	0	397,200	6,620
CD22Q - West Market Street Phase 1	673,621	0	(25,419)	648,202	25,419
Other Long-Term Debt:					
Municipal Building Rehabilitation Bonds	470,000	0	(470,000)	0	0
2017 Refunding - Various Purpose	0	517,500	(45,000)	472,500	42,750
St Rt / Hickory Pointe	274,500	0	(18,000)	256,500	18,000
Cherry Street Improvements	165,000	0	(10,000)	155,000	10,000
West Market Street Imp Phase I	307,500	0	(26,700)	280,800	22,500
Total Governmental Activities	<u>2,461,619</u>	<u>952,952</u>	<u>(631,975)</u>	<u>2,782,596</u>	<u>159,652</u>
Business-Type Activities:					
OPWC Debt:					
CD14L - Dayton Pike Water Storage Tower	1,100,721	0	(73,381)	1,027,340	73,381
CD04J - Cherry Street Improvement Phase 1	5,882	0	(3,919)	1,963	1,963
CD06J - Cherry Street Improvement Phase 2	6,685	0	(4,456)	2,229	2,229
CD09P - Cherry Street Improvement Phase 3	74,780	0	(2,770)	72,010	2,770
CD32S - Cherry Street Improvement Phase 4	276,131	25,501	(5,027)	296,605	10,306
CD28T - Cherry Street Improvement Phase 5	0	264,800	0	264,800	4,413
CD11Q - Sanitary Sewer Rehab Phase 1	85,349	0	(3,048)	82,301	3,048
CD05R - Sanitary Sewer Rehab Phase 2	152,392	0	(5,166)	147,226	5,166
CT08F - Water Booster Station	64,466	0	(6,829)	57,637	6,949
CT08D - Hillcrest Sewer System	46,211	0	(6,358)	39,853	6,470
CD21T - Sanitary Sewer Rehab Phase 3	0	149,674	0	149,674	2,495
Other Long-Term Debt:					
Dry Run Sewer Improvement Bonds	635,000	0	(635,000)	0	0
Water Meters	365,000	0	(25,000)	340,000	25,000
East Market Street Water and Sewer	520,000	0	(35,000)	485,000	35,000
West Market Street Imp Phase I	102,500	0	(8,900)	93,600	7,500
Water Chemical Feed Building / Silt Removal	205,000	0	(15,000)	190,000	15,000
Engineering Water and Sewer	180,000	0	(10,000)	170,000	15,000
St Rt / Hickory Pointe	30,500	0	(2,000)	28,500	2,000
2017 Refunding - Various Purpose	0	632,500	(55,000)	577,500	52,250
Mortgage Revenue Water Bond	447,000	0	(66,000)	381,000	69,000
Total Business-Type Activities	<u>4,297,617</u>	<u>1,072,475</u>	<u>(962,854)</u>	<u>4,407,238</u>	<u>339,940</u>
Total Long-Term Debt	<u>\$6,759,236</u>	<u>\$2,025,427</u>	<u>(\$1,594,829)</u>	<u>\$7,189,834</u>	<u>\$499,592</u>

As discussed in note 16, certain debt was not being paid from the correct fund. In order to correctly match the fund paying the debt, certain issuances above have been revised from prior financial statements to correctly allocate debt between governmental and business-type activities.

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Outstanding OPWC noted (Project #CD08J) consist of a loan to fund the East Market Street Hill Phase I Project. The debt will be repaid from revenues of the City's street capital improvement fund.

Outstanding OPWC notes (Project #CD02J) consist of a loan to fund the North Walnut Street Reconstruction Project. The debt will be repaid from revenues of the City's general fund.

Outstanding OPWC notes (Project #CD04J, #CD06J, #CD09P, #CD32S, and #CD28T) consist of loans to fund the Cherry Street Improvements Phase 1, 2, 3, 4, and 5 Projects. The debt will be repaid from revenues of the City's street capital improvement fund, water fund, sewer fund, and storm water fund.

Outstanding OPWC notes (Project # CD02L) consist of a loan to fund the Dayton Pike Resurfacing Project. The debt will be repaid from revenues of the City's general fund.

Outstanding OPWC notes (Project #CD14L) consist of a loan to fund the Dayton Pike Water Storage Tank Project. The debt will be repaid from revenues of the City's water fund.

Outstanding OPWC notes (Project #CD11Q, #CD05R, and #CD21T) consist of loans to fund the Sanitary Sewer Rehabilitation Phase 1, 2, and 3. The debt will be repaid from revenues of the City's sewer system.

Outstanding OPWC notes (Project #CD22Q) consist of a loan to fund the West Market Street Phase I Project. The debt will be repaid from revenues of the City's street capital improvement fund.

Outstanding OPWC notes (Project #CT08F) consist of a loan to fund the Water Booster Station Improvements. The debt will be repaid from revenues of the City's water system.

Outstanding OPWC notes (Project #CT08D) consist of a loan to fund the Hillcrest Drive Sewer Improvement. The debt will be repaid from revenues of the City's sewer system.

All OPWC notes are interest free, except for Project #CT08F and Project #CT08D, which are 1% interest.

Municipal Building Rehabilitation Bonds consist of bonds issued for the purpose of constructing a new municipal building. General Obligations are direct obligations of the City for which the City's full faith and credit are pledged and are payable from taxes levied on all taxable property in the City. These bonds were refunded in 2017 and the refunded bonds will be paid from the general fund.

St. Rt. / Hickory Pointe Bonds consist of general obligation bonds issued for the Hickory Pointe public infrastructure improvements. The St. Rt. / Hickory Pointe Bonds will be paid from the street capital improvement fund and sewer fund.

Dry Run Sewer Improvement Bonds were issued as a result of the Sanitary Sewer Improvement Bonds being partially refunded in 2007. These bonds were for the improvement of the City's sewer system. Property and revenue of the City's sewer system has been pledged to repay this debt. These bonds were refunded in 2017 and the refunded bonds will be paid from the sewer fund.

Cherry Street Improvements Bonds were issued to make improvements on Cherry Street. These bonds will be paid from the street capital improvement fund.

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Water Meter Bonds were issued to make improvements to the water meters throughout the City. These bonds will be paid from the water fund and sewer fund.

East Market Street Improvement Bonds were issued to make improvements on the water and sewer systems on East Market Street. These bonds will be paid from the water fund and sewer fund.

West Market Street Improvements-Phase 1 Bonds were issued to make various improvements on West Market Street. These bonds will be paid from the street capital improvement fund, water fund, and storm water fund.

Water Chemical Feed Building / Silt Removal Bonds were issued to build a chemical feed building and also to remove silt for the water system of the City. These bonds will be paid from the water fund.

Engineering Water and Sewer Bonds were issued to help with the engineering aspect of the water and sewer systems throughout the City. These bonds will be paid from the water fund and sewer fund.

Mortgage Revenue Bonds are for the improvement of the water system for the City. Property and revenue of the City's water system has been pledged to repay this debt.

Amortization of the above debt, including interest, is scheduled as follows:

Year	General Obligation Bonds		Mortgage Revenue Bonds		OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$245,000	\$90,020	\$69,000	\$19,050	\$185,592	\$941
2019	255,000	82,938	72,000	15,600	183,777	806
2020	275,000	75,585	76,000	12,000	179,819	670
2021	270,000	67,618	80,000	8,200	179,958	533
2022	280,000	59,755	84,000	4,200	180,096	395
2023-2027	1,520,000	171,686	0	0	859,690	440
2028-2032	204,400	7,120	0	0	757,277	0
2033-2037	0	0	0	0	463,750	0
2038-2042	0	0	0	0	463,752	0
2043-2047	0	0	0	0	292,205	0
2048	0	0	0	0	13,518	0
	<u>\$3,049,400</u>	<u>\$554,722</u>	<u>\$381,000</u>	<u>\$59,050</u>	<u>\$3,759,434</u>	<u>\$3,785</u>

Note 7 – Debt Refunding

On October 19, 2017 the City issued \$1,150,000 in Current Interest Bonds with an interest rate of 2.10% which was used to refund \$1,105,000 of the outstanding 2007 Municipal Building Rehabilitation Funds and 2007 Dry Run Sewer Improvement Bonds with an interest rate between 4.00% and 5.00%. The net proceeds of \$1,129,207 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bond issues. As a result, \$1,105,000 of the 2007 Municipal Building Rehabilitation Funds and 2007 Dry Run Sewer Improvement

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Bonds were considered to be defeased.

The City refunded 2007 Municipal Building Rehabilitation Funds and 2007 Dry Run Sewer Improvement Bonds to reduce its total debt service payments by \$104,859 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$99,732.

Note 8 – Defined Benefit Pension Plans

Net Pension Liability

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 net pension liability represents the City’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 City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City 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 net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the modified cash basis framework.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City 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. City employees) may elect the member-directed plan and the combined plan, substantially all employee

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members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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, including requirements for reduced and unreduced benefits):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
<u>State and Local</u>	<u>State and Local</u>	<u>State and Local</u>
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
<u>Public Safety</u>	<u>Public Safety</u>	<u>Public Safety</u>
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
<u>Law Enforcement</u>	<u>Law Enforcement</u>	<u>Law Enforcement</u>
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
<u>Public Safety and Law Enforcement</u>	<u>Public Safety and Law Enforcement</u>	<u>Public Safety and Law Enforcement</u>
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

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.

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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>	<u>Public Safety</u>	<u>Law Enforcement</u>
2017 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
2017 Actual Contribution Rates			
Employer:			
Pension	13.0 %	17.1 %	17.1 %
Post-employment Health Care Benefits	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$112,697 for year 2017.

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

Plan Description – City full-time police 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

City of Germantown, Ohio
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For The Year Ended December 31, 2017

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.

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

	<u>Police</u>	<u>Firefighters</u>
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2017 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	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$149,111 for 2017.

City of Germantown, Ohio
Notes to Basic Financial Statements
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City proportion of the net pension liability was based on the City 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>OPF</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,377,031	\$1,660,368	\$3,037,399
Proportion of the Net Pension Liability			
Current Measurement Date	0.00606400%	0.02621400%	
Proportion of the Net Pension Liability			
Prior Measurement Date	<u>0.00623200%</u>	<u>0.02656800%</u>	
Change in Proportionate Share	0.00016800%	0.00035400%	

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

City of Germantown, Ohio
Notes to Basic Financial Statements
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Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	Traditional Pension Plan
Valuation Date	December 31, 2016
Experience Study	5 year period ending December 31, 2015
Actuarial Cost Method	Individual Entry Age
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Wage Inflation	3.25%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)
Cost-of-Living Adjustments:	
Pre 1/7/2013 Retirees	3.00% Simple,
Post 1/7/2013 Retirees	3.00% Simple,
Through 2018, then	2.15% Simple.

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

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

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board 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 following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.5%, post-experience study results, for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. 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 contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability or asset calculated using the discount rate of 7.5%, and the expected net pension liability or asset if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
City's proportionate share of the net pension liability:			
OPERS	\$2,103,723	\$1,377,031	\$771,462

Changes in Benefit Terms and Assumptions

There were no recent significant changes of benefit terms, investment policies, the size or composition of the population covered by the benefit terms impacting the actuarial valuation study for the year ended December 31, 2016.

In 2016, a five-year experience study was completed on the period January 1, 2011 through December 31, 2015. The Board adopted changes to both the demographic and economic assumptions as a result of the study. The most notable change in demographic assumptions is an increased life expectancy of the members and the most notable change in economic assumptions is the reduction in the actuarially assumed rate of return from 8.00% down to 7.50% for the defined benefit investments. The new assumptions are included in the 2016 actuarial valuation.

In 2016, OPERS, in conjunction with the Board's investment consultants, also completed an asset liability study. Periodically, the System engages in a more comprehensive study that examines the nature of the pension liabilities we will ultimately pay and the characteristics of the asset allocation projections and the associated level of risk. As a result of this study, OPERS modified the asset allocation slightly, but not substantively.

Actuarial Assumptions – OPF

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

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City of Germantown, Ohio
Notes to Basic Financial Statements
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Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	OPF Pension Plan
Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Experience Study	5 year period ending December 31, 2011
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Wage Inflation	3.25%, plus productivity increase rate of 0.50%
Projected Salary Increases	4.25% - 11.00%
Cost-of-Living Adjustments	3.00% Simple; 2.60% simple for increases based on the lesser of the increase in CPI and 3.00%

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

The most recent experience study of five years was completed in 2017 covering the period 2012-2016.

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 OPF's 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 real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2016 are summarized below:

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Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalent	0.00 %	0.00 %	0.00 %
Domestic Equity	16.00	4.46	5.21
Non-US Equity	16.00	4.66	5.40
Core Fixed Income*	20.00	1.67	2.37
Global Inflation Protected Securities*	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	120.00 %		

Note: Assumptions are geometric

* levered 2x

** Numbers are net of expected inflation

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 1.20 times due to the application of leverage in certain fixed income asset classes.

Discount Rate

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

Sensitivity of the City'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 preceding table presents the net pension liability calculated using the discount rate of 8.25% as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower, 7.25% or one percentage point higher, 9.25% than the current rate.

City of Germantown, Ohio
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For The Year Ended December 31, 2017

	1% Decrease <u>(7.25%)</u>	Current Discount Rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability :			
OP&F	\$2,211,414	\$1,660,368	\$1,193,350

Changes Between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

Note 9 – Post Employment Benefits

Ohio Public Employees Retirement System

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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 OPERS Board of Trustees (OPERS Board) Chapter 145 of the Ohio Revised Code.

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

City of Germantown, Ohio
Notes to Basic Financial Statements
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Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

Information from City's Records

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$8,047, \$15,673, and \$17,284, respectively. The full amount has been contributed for all three years.

Ohio Police and Fire Pension Fund

Plan Description

The City 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 OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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 healthcare 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. That report may be obtained by writing to OP&F, 140 East

City of Germantown, Ohio
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For The Year Ended December 31, 2017

Town Street, Columbus, Ohio 43215-5164, or by visiting the OP&F website at www.op-f.org.

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% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 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 OPF 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.

Information from City's Records

The City's contributions to OP&F for the year ending December 31, 2017 were \$3,877; and were \$2,850 for year ending December 31, 2016; and were \$3,007 for the year ending December 31, 2015, allocated to the healthcare plan. The actual contributions for 2017, 2016 and 2015 were 100%.

Note 10 – Risk Management

The City is exposed to various risks of property and casualty losses, and injuries to employees. The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local Cities. 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 Cities pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

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:

PEP Financial Data

Casualty & Property Coverage

	<u>2017</u>	<u>2016</u>
Assets	\$44,452,326	\$42,182,281
Liabilities	(13,004,011)	(13,396,700)
Net Position:		
Unrestricted	<u>\$31,448,315</u>	<u>\$28,785,581</u>

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to over 527 members in 2017. 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.

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to 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.

Note 11 – Contingent Liability

The City is not party to any legal proceedings.

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

Note 12 – Interfund Transfers and Advances

Activity for the years ending December 31, 2017:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Advance In</u>	<u>Advance Out</u>
Major Funds:				
General Fund	\$0	(\$1,096,560)	\$156,247	(\$352,711)
Police Levy	1,054,560	0	0	(45,000)
Emergency Medical Services	0	(100,000)	0	0
Fire Services	0	(100,000)	0	0
Street Capital Improvement	0	0	352,711	(111,247)
EMS Capital Improvement	100,000	0	0	0
Other Governmental Funds	100,000	(42,000)	0	0
Other Enterprise Funds	84,000	0	0	0
	<u>\$1,338,560</u>	<u>(\$1,338,560)</u>	<u>\$508,958</u>	<u>(\$508,958)</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The transfers out of the Emergency Medical Services Fund and into the EMS Capital Improvements Fund were to provide additional resources for EMS related capital improvement projects. The transfers out of the Fire Services Fund and into the Fire Capital Improvement Fund were to provide additional resources for fire related capital improvement projects, the transfers out of the Other Governmental Funds (Park Capital Improvement) and into the Recreation Fund were to provide additional resources for parks and recreation projects.

The advance from the Police Levy Fund to the General Fund was a repayment of an advance from 2014. The advances to and from the General Fund and the Street Capital Improvement Fund were to repay and cover the negative fund cash balances.

Note 13 – Accountability and Compliance

ORC Section 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. The Street Capital Improvement Fund had a negative fund balance of \$352,711. Also, the City made principal and interest payments out of the wrong funds.

City of Germantown, Ohio
Notes to Basic Financial Statements
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Note 14 – Fund Balances

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

Fund Balances	General	Police Levy	Emergency Medical Services	Fire Services	EMS Capital Improvements	Other Governmental Funds	Total
Nonspendable							
Unclaimed Monies	\$14,648	\$0	\$0	\$0	\$0	\$0	\$14,648
Permanent Endowment	0	0	0	0	0	25,649	25,649
Total Nonspendable	14,648	0	0	0	0	25,649	40,297
Restricted for:							
Emergency Medical Services	0	0	852,945	0	0	0	852,945
Fire Services	0	0	0	1,027,329	0	0	1,027,329
Drug Enforcement	0	0	0	0	0	2,189	2,189
Law Enforcement Trust	0	0	0	0	0	7,394	7,394
Federal Law Enforcement	0	0	0	0	0	824	824
Senior Citizens	0	0	0	0	0	209,406	209,406
DUI Education and Enforcement	0	0	0	0	0	7,382	7,382
Street Improvements	0	0	0	0	0	192,733	192,733
State Highway	0	0	0	0	0	43,684	43,684
Motor Vehicle License Tax	0	0	0	0	0	126,938	126,938
Permissive Tax	0	0	0	0	0	99,848	99,848
Police Levy	0	105,733	0	0	0	0	105,733
Street Lights	0	0	0	0	0	126,837	126,837
Police Professional Training	0	0	0	0	0	5,180	5,180
Capital Improvements	0	0	0	0	625,883	306,159	932,042
TIF	0	0	0	0	0	57,144	57,144
Total Restricted	0	105,733	852,945	1,027,329	625,883	1,185,718	3,797,608
Assigned to:							
Encumbrances	31,017	0	0	0	0	0	31,017
Next Year's Budget	118,270	0	0	0	0	0	118,270
Total Assigned	149,287	0	0	0	0	0	149,287
Unassigned (Deficit)	305,361	0	0	0	0	0	305,361
Total Fund Balance	\$469,296	\$105,733	\$852,945	\$1,027,329	\$625,883	\$1,211,367	\$4,292,553

Note 15 – Implementation of New Accounting Principles

For the fiscal year ended December 31, 2017, the City has implemented Governmental Accounting Standards Board GASB Statement No. 80, "Blending Requirements for Certain Component Units- An Amendment of GASB Statement No. 14," GASB Statement No. 81, "Irrevocable Split-Interest Agreements" and GASB Statement No. 82, "Pension Issues- An Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the

City of Germantown, Ohio
Notes to Basic Financial Statements
For The Year Ended December 31, 2017

sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the City.

Note 16 – Prior Period Adjustment

A net position and fund balance restatement is required to correct which funds are making debt payments. The governmental activities and business-type activities at January 1, 2017 have been restated as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net position as previously reported	\$4,252,165	\$1,262,070
Adjustments	<u>(226,214)</u>	<u>226,214</u>
Restated Net Position January 1, 2017	<u><u>\$4,025,951</u></u>	<u><u>\$1,488,284</u></u>
	<u>General</u>	<u>Street Capital Improvement</u>
Fund balance as previously reported	\$780,132	\$109,967
Adjustments	<u>(116,247)</u>	<u>(109,967)</u>
Restated Fund Balance January 1, 2017	<u><u>\$663,885</u></u>	<u><u>\$0</u></u>

City of Germantown, Ohio
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For The Year Ended December 31, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Other Enterprise</u>
Net position as previously reported	\$434,558	\$560,653	\$189,701
Adjustments	<u>114,484</u>	<u>85,691</u>	<u>26,039</u>
Restated Net Position January 1, 2017	<u><u>\$549,042</u></u>	<u><u>\$646,344</u></u>	<u><u>\$215,740</u></u>

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CITY OF GERMANTOWN



**Yellow Book Report
December 31, 2017**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

City of Germantown
Montgomery County
75 North Walnut Street
Germantown, Ohio 45327

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Germantown (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2019, wherein we noted the City presented financial statements on the modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be material weaknesses. See 2017-001 and 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2017-003.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattensburg & Associates, Inc.

Plattensburg & Associates, Inc.
Dayton, Ohio
June 25, 2019

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017**

Finding 2017-001 – Material Weakness

The presentation of financial statements and related footnotes that are free of material misstatement is the responsibility of the City's management. Independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to preparing financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes in a timely manner prior to audit.

Our audit identified misstatements in the City's financial statements that required adjustment in order to present the financial statements in accordance with the modified cash basis of accounting. The City had certain disbursement transactions and a debt refunding that did not get posted to the general ledger or the financial statements. The City erroneously coded OPWC receipts as capital grants and contributions that should have been coded as OPWC loan proceeds. In previous years and the current year the City issued debt and made principal and interest payments out of the wrong funds. This resulted in prior period adjustments and adjustments to the current year. The City had other minor misclassifications and disclosures that were also corrected. These misstatements required adjustments to the City's financial statements.

Recommendation:

The City should develop a systematic, detailed financial statement preparation and review process to help eliminate audit adjustments.

City's Response:

The City agrees with the adjustments and will implement procedures to prevent these issues in the future.

Finding 2017-002 – Material Weakness

During the course of our audit we identified material weaknesses in Internal Control relating payroll processing. The material weaknesses identified were the result of improper operations related to:

- Inadequate separation of duties as there was no oversight over the payroll clerk.
- Required payroll filings (in particular, 941 submissions) were not performed in a timely manner.

The effect of the above issues is the existence of a reasonable possibility that fraud relating to payroll could occur or payroll could be being processed incorrectly.

Recommendation:

The City should implement separation of duties, monitoring and oversight procedures in regards to payroll processing. The City should file reports related to payroll in a timely fashion.

City's Response:

The City will implement separation of duties, monitoring and oversight procedures in regards to payroll processing. The City will file 941's timely.

Finding 2017-003 – Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code 117-2-03 further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit certain assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City. As such, the City should prepare its annual financial report in accordance with generally accepted accounting principles.

Recommendation:

The City should prepare financial statements that follow GAAP.

City's Response:

The City evaluated the cost-benefit relationship of preparing GAAP statements versus modified cash financial statements for the year ended December 31, 2017, and determined that the significant cost of compliance exceeds the benefit received.

OHIO AUDITOR OF STATE
KEITH FABER



CITY OF GERMANTOWN

MONTGOMERY 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
AUGUST 8, 2019**