

**CITY OF NORWALK
HURON COUNTY**

REGULAR AUDIT

JANUARY 1, 2018 – DECEMBER 31, 2018



WILSON, SHANNON & SNOW
INC.
CPAs & ADVISORS

OHIO AUDITOR OF STATE
KEITH FABER



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Members of Council
City of Norwalk
38 Whittlesey Avenue
P.O. Box 30
Norwalk, Ohio 44857

We have reviewed the *Independent Auditor's Report* of the City of Norwalk, Huron County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2018 through December 31, 2018. 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 Norwalk is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

June 28, 2019

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**CITY OF NORWALK
HURON COUNTY, OHIO**

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**CITY OF NORWALK
HURON COUNTY, OHIO**

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City of Norwalk
Huron County
38 Whittlesey Avenue
P.O. Box 30
Norwalk, Ohio 44857

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norwalk, Huron County, Ohio (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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 needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinions

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

Emphasis of Matter

As discussed in Note 3 to the basic financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and restatement of capital assets and loan liability. We did not modify our opinion regarding these matters.

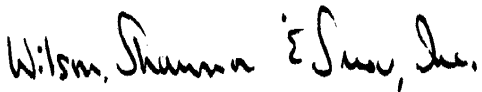
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



June 10, 2019
Newark, Ohio

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The management's discussion and analysis of the City of Norwalk's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- The total net position of the City decreased \$472,253 from 2017 restated net position. Net position of governmental activities decreased \$1,135,071 or 7% over the 2017 restated net position of \$15,407,688 and net position of business-type activities increased \$662,818 or 2% from 2017 restated net position of \$28,980,240.
- General revenues and transfers accounted for \$9,020,205, or 60% of total governmental activities revenue. Program specific revenues accounted for \$6,058,029 or 40% of total governmental activities revenue.
- The City had \$16,213,305 in expenses related to governmental activities; \$6,058,029 of these expenses was offset by program specific charges for services and sales, grants or contributions. The remaining expenses of the governmental activities of \$10,155,276 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) and transfers of \$9,020,205.
- The general fund had revenues and other financing sources of \$7,648,334 in 2018. This represents an increase of \$296,552 from 2017 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$7,904,247 in 2018 increased \$317,843 from 2017 expenditures and other financing uses. The net decrease in fund balance for the general fund was \$255,913 or 9%.
- The general capital improvements fund had revenues and other financing sources of \$1,909,808 in 2018. The expenditures of the general capital improvements fund totaled \$2,108,972 in 2018. The net decrease in fund balance was \$199,164 from 2017.
- The fire station construction fund had no revenues and expenditures of \$2,777,084. The net decrease in fund balance was \$2,777,084.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2018?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net position and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, parks and recreation, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer, water, sanitation and storm water operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, the general capital improvements fund and fire station construction fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water, sanitation and storm water management functions. All of the enterprise funds are considered major funds with the exception of the storm water fund.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Government-Wide Financial Analysis

The statement of net position serves as a useful indicator of a government's financial position. The table below provides a summary of the City's restated net position for 2018 and 2017.

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**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

			Restated Net Position		Total 2018	Total 2017
	Governmental Activities 2018	Business-type Activities 2018	Governmental Activities 2017	Business-type Activities 2017		
Assets						
Current and other assets	\$ 11,310,156	\$ 7,361,499	\$ 13,693,004	\$ 6,642,961	\$ 18,671,655	\$ 20,335,965
Nondepreciable capital assets	3,146,079	45,261	5,147,346	8,668,991	3,191,340	13,816,337
Depreciable capital assets, net	21,059,815	41,352,220	15,959,623	33,189,347	62,412,035	49,148,970
Capital assets, net	<u>24,205,894</u>	<u>41,397,481</u>	<u>21,106,969</u>	<u>41,858,338</u>	<u>65,603,375</u>	<u>62,965,307</u>
Total assets	<u>35,516,050</u>	<u>48,758,980</u>	<u>34,799,973</u>	<u>48,501,299</u>	<u>84,275,030</u>	<u>83,301,272</u>
Deferred outflows of resources	<u>2,516,075</u>	<u>843,858</u>	<u>3,211,590</u>	<u>1,933,986</u>	<u>3,359,933</u>	<u>5,145,576</u>
Liabilities						
Current and other liabilities	389,357	154,401	485,771	470,627	543,758	956,398
Long-term liabilities:						
Due within one year	423,219	923,457	334,805	826,059	1,346,676	1,160,864
Net pension liability	9,648,009	2,992,058	11,400,219	4,676,167	12,640,067	16,076,386
Net OPEB liability	8,408,232	2,101,430	7,190,311	1,635,609	10,509,662	8,825,920
Due in more than one year	<u>1,950,212</u>	<u>12,930,570</u>	<u>1,797,573</u>	<u>13,698,918</u>	<u>14,880,782</u>	<u>15,496,491</u>
Total liabilities	<u>20,819,029</u>	<u>19,101,916</u>	<u>21,208,679</u>	<u>21,307,380</u>	<u>39,920,945</u>	<u>42,516,059</u>
Deferred inflows of resources	<u>2,940,479</u>	<u>857,864</u>	<u>1,395,196</u>	<u>147,665</u>	<u>3,798,343</u>	<u>1,542,861</u>
Net Position						
Net investment in capital assets	22,915,628	28,008,717	20,085,116	27,813,006	50,924,345	47,898,122
Restricted	4,134,034	-	9,029,630	-	4,134,034	9,029,630
Unrestricted	<u>(12,777,045)</u>	<u>1,634,341</u>	<u>(13,707,058)</u>	<u>1,167,234</u>	<u>(11,142,704)</u>	<u>(12,539,824)</u>
Total net position	<u>\$ 14,272,617</u>	<u>\$ 29,643,058</u>	<u>\$ 15,407,688</u>	<u>\$ 28,980,240</u>	<u>\$ 43,915,675</u>	<u>\$ 44,387,928</u>

Over time, net position can serve as a useful indicator of a government's financial position. At year-end, net position was \$43,915,675 that comprised \$14,272,617 and \$29,634,058 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 64% and 83% of total assets and deferred outflows of resources for the governmental activities and business-type activities, respectively. Capital assets include land, construction in progress, land improvements, buildings, equipment and infrastructure. The City's net investment in capital assets at December 31, 2018, were \$22,915,628 and \$28,008,717 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A portion of the City's net position, \$4,134,034 represents resources that are subject to external restriction on how they may be used.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The following table shows the changes in net position for 2018 and 2017.

	Change in Net Position (Restated)					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	Total	Total
	2018	2018	2017	2017	2018	2017
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,345,341	\$ 7,703,971	\$ 2,050,082	\$ 7,541,109	\$ 10,049,312	\$ 9,591,191
Operating grants and contributions	1,691,961	-	1,511,968	-	1,691,961	1,511,968
Capital grants and contributions	2,020,727	44,520	1,495,893	-	2,065,247	1,495,893
Total program revenues	6,058,029	7,748,491	5,057,943	7,541,109	13,806,520	12,599,052
General revenues:						
Property and other local taxes	1,102,691	-	1,113,448	-	1,102,691	1,113,448
Income taxes	6,369,137	1,273,805	6,188,798	1,237,790	7,642,942	7,426,588
Shared revenues	139,883	-	98,468	-	139,883	98,468
Payment in lieu of taxes	42,231	-	63,453	-	42,231	63,453
Grants and entitlements	565,515	-	498,357	-	565,515	498,357
Investment earnings	142,719	-	190,164	-	142,719	190,164
Other	631,074	141,614	307,782	95,374	772,688	403,156
Total general revenues	8,993,250	1,415,419	8,460,470	1,333,164	10,408,669	9,793,634
Total revenues	15,051,279	9,163,910	13,518,413	8,874,273	24,215,189	22,392,686
Program Expenses:						
General government	2,644,195	-	2,387,100	-	2,644,195	2,387,100
Security of persons and property	8,855,962	-	5,583,100	-	8,855,962	5,583,100
Public health and welfare	86,173	-	100,472	-	86,173	100,472
Transportation	1,981,653	-	2,085,453	-	1,981,653	2,085,453
Community environment & development	426,904	-	595,002	-	426,904	595,002
Leisure time activity	2,166,464	-	1,641,708	-	2,166,464	1,641,708
Utility services	-	-	22,768	-	-	22,768
Interest and fiscal charges	51,954	-	54,616	-	51,954	54,616
Sanitation	-	1,646,198	-	1,280,929	1,646,198	1,280,929
Sewer	-	3,431,662	-	2,725,526	3,431,662	2,725,526
Water	-	3,062,522	-	3,102,399	3,062,522	3,102,399
Storm water	-	333,755	-	86,643	333,755	86,643
Total expenses	16,213,305	8,474,137	12,470,219	7,195,497	24,687,442	19,665,716
Change in net position before transfers	(1,162,026)	689,773	1,048,194	1,678,776	(472,253)	2,726,970
Transfers	26,955	(26,955)	-	-	-	-
Increase (decrease) in net position	(1,135,071)	662,818	1,048,194	1,678,776	(472,253)	2,726,970
Net position beginning of year	15,407,688	28,980,240	NA	NA	44,387,928	NA
Net position end of year	\$ 14,272,617	\$ 29,643,058	\$ 15,407,688	\$ 28,980,240	\$ 43,915,675	\$ 44,387,928

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

Governmental Activities

Governmental activities net position decreased \$1,135,071 in 2018 and is primarily attributed to other postemployment benefit expense associated with the adoption of GASB Statement No. 75.

Security of persons and property, which includes police and fire operations, totaled \$8,855,962 or 55% of total governmental activities expenses and were partially funded by \$213,766 in charges for services and sales, \$132,284 in operating grants and contributions and \$774,507 in capital grants and contributions. General government expenses totaled \$2,644,195 and were partially funded by \$1,033,615 in charges for services and sales and \$330,918 in operating grants and contributions.

Operating grants and contributions relate to federal, state and local revenues which totaled \$1,691,961. These revenues are restricted for security of persons and property, transportation and community environment and development purposes. Capital grants and contributions of \$2,020,727 were primarily for construction of the City's new fire station and also transportation related purposes.

General revenues and transfers totaled \$9,020,205 and primarily consist of property and income tax revenue of \$7,471,828. The other primary source of general revenues is unrestricted grants totaling \$565,515.

The statement of activities shows the cost of program services and the charges for services and sales and grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2018 compared to 2017. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

Governmental Activities - Program Revenues vs. Total Expenses
Governmental Activities

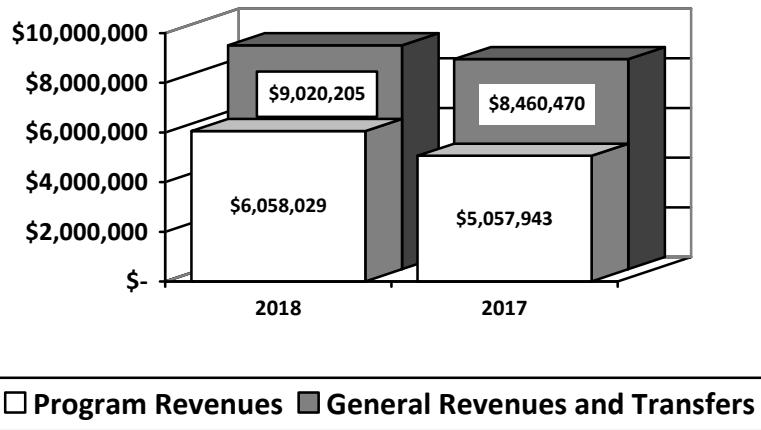
	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 2,644,195	\$ 1,279,662	\$ 2,387,100	\$ 1,436,109
Security of persons & property	8,855,962	7,735,405	5,583,100	5,202,014
Public health and welfare	86,173	86,173	100,472	100,472
Transportation	1,981,653	35,739	2,085,453	(434,686)
Community environment & development	426,904	122,821	595,002	342,013
Leisure time activity	2,166,464	843,522	1,641,708	688,970
Utility services	-	-	22,768	22,768
Interest and fiscal charges	51,954	51,954	54,616	54,616
Total	\$ 16,213,305	\$ 10,155,276	\$ 12,470,219	\$ 7,412,276

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

The chart below illustrates the City's program revenues versus general revenues for 2018 and 2017.

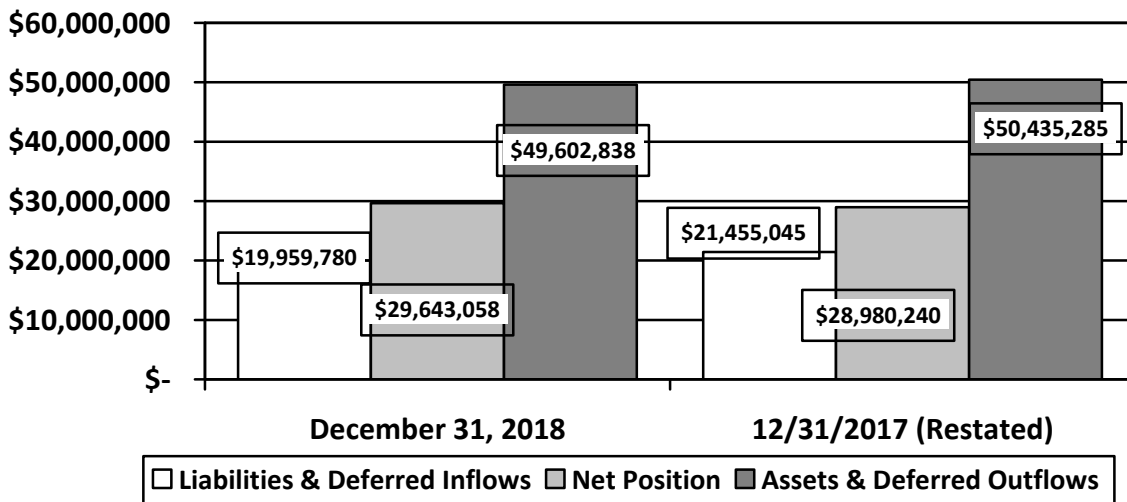
Governmental Activities – General and Program Revenues



Business-type Activities

Business-type activities include the water, sewer, sanitation and storm water enterprise funds. The graph below shows the business-type activities assets and deferred outflows, liabilities and deferred inflows and net position at year-end.

Net Position in Business - Type Activities



**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

Net Pension and Other Postemployment Benefit Liabilities

The net pension liability (NPL) reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27.* For 2018, the City adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with accounting principles generally accepted in the United States of America. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position see Note 3 for details.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds reported a combined fund balance of \$7,864,430 which is \$3,303,348 lower than last year's total of \$11,167,778. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2018 for all major and non-major governmental funds.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)**

	Fund Balances 12/31/2018	Fund Balances 12/31/2017	(Decrease)
Major funds:			
General fund	\$ 2,572,768	\$ 2,828,681	\$ (255,913)
General capital improvement fund	980,901	1,180,065	(199,164)
Fire station construction fund	39,266	2,816,350	(2,777,084)
Other governmental funds	4,271,495	4,342,682	(71,187)
Total	<u>\$ 7,864,430</u>	<u>\$ 11,167,778</u>	<u>\$ (3,303,348)</u>

General Fund

The City's general fund balance decreased \$255,913. The table that follows assists in illustrating the revenues of the general fund.

	2018 Amount	2017 Amount	Percentage Change
Revenues			
Property and other taxes	\$ 595,149	\$ 581,690	2.31 %
Income taxes	4,618,284	4,735,864	(2.48) %
Shared revenues	104,389	63,783	63.66 %
Special assessments	1,650	2,523	(34.60) %
Charges for services	90,674	72,857	24.45 %
Licenses and permits	239,117	224,546	6.49 %
Fines and forfeitures	653,843	642,570	1.75 %
Intergovernmental	743,278	670,138	10.91 %
Investment income	122,693	177,204	(30.76) %
Other	391,204	178,607	119.03 %
Total	<u>\$ 7,560,281</u>	<u>\$ 7,349,782</u>	2.86 %

The City's largest revenue source in the general fund was income tax revenue, which represents 61% of all general fund revenue. Income tax revenues were relatively flat from the prior year decreasing 2.48% from the prior year.

The table that follows assists in illustrating the expenditures of the general fund.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

	2018 <u>Amount</u>	2017 <u>Amount</u>	Percentage <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,051,197	\$ 2,066,829	(0.76) %
Security of persons and property	4,478,720	4,371,680	2.45 %
Public health and welfare	86,173	100,472	(14.23) %
Transportation	9,656	31,511	(69.36) %
Community environment and development	14,201	11,680	21.58 %
Capital outlay	415,584	93,199	345.91 %
Debt service	12,396	12,397	(0.01) %
Total	<u>\$ 7,067,927</u>	<u>\$ 6,687,768</u>	5.68 %

Total general fund expenditures increased 5.68% from the prior year with the largest dollar increase related to capital outlay.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly. Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources came in \$889,750 higher than they were in the final budget and actual expenditures and other financing uses were \$549,284 less than the amount in the final budget.

General Capital Improvements Fund

The general capital improvements fund had revenues and other financing sources of \$1,909,808 in 2018. The expenditures of the general capital improvements fund totaled \$2,108,972 in 2018. The net decrease in fund balance was \$199,164 from 2017.

Fire Station Construction Fund

The fire station construction fund had no revenues and expenditures of \$2,777,084. The net decrease in fund balance was \$2,777,084.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of 2018, the City had \$65,603,375 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, equipment, and infrastructure. Of this total, \$24,205,894 was reported in governmental activities and \$41,397,481 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows 2018 balances compared to restated balances for 2017.

**Capital Assets at December 31
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 (Restated)	2018	2017 (Restated)	2018	2017 (Restated)
Land	\$ 3,125,695	\$ 3,125,695	\$ 45,261	\$ 45,261	\$ 3,170,956	\$ 3,170,956
Construction in progress	20,384	2,021,651	-	8,623,730	20,384	10,645,381
Land improvements	928,325	481,462	187,382	209,194	1,115,707	690,656
Buildings	9,582,096	5,739,038	9,517,486	9,718,745	19,099,582	15,457,783
Equipment	2,265,710	2,409,030	3,150,378	2,844,727	5,416,088	5,253,757
Infrastructure	8,283,684	7,330,093	28,496,974	20,416,681	36,780,658	27,746,774
Totals	<u>\$ 24,205,894</u>	<u>\$ 21,106,969</u>	<u>\$ 41,397,481</u>	<u>\$ 41,858,338</u>	<u>\$ 65,603,375</u>	<u>\$ 62,965,307</u>

The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 34% of the City's total governmental activities and 69% of the business-type activity capital assets.

Debt Administration

The City had the following debt obligations outstanding at December 31, 2018 and 2017:

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

	Governmental Activities	
	2018	Restated 2017
OPWC loans	\$ 105,033	\$ 123,894
OWDA loans	243,592	318,715
Capital leases	941,641	579,244
Police and fire pension	327,780	341,310
Total debt obligations	\$ 1,618,046	\$ 1,363,163
	Business-type Activities	
	2018	Restated 2017
OPWC loans	\$ 209,859	\$ 71,135
Bond anticipation notes	-	300,000
OWDA loans	12,868,747	13,873,373
Capital leases	310,158	100,824
Total debt obligations	\$ 13,388,764	\$ 14,345,332

See Notes 11 and 12 to the basic financial statements for detail on the City's debt obligations.

Economic Factors and Next Year's Budget and Rates

The City continues to closely monitor the revenue and expenditures. Income tax collections, the City's primary source of General fund cash basis revenue, increased by 9% (cash basis) from 2017 to 2018. The City has continued to budget conservatively.

In addition, the following items were taken into consideration during preparation of the 2019 budget: 1) Interest rates continue to be lower than historical levels; 2) The cost of repair and replacement of City infrastructure continues to increase; and 3) Income Tax Revenue is budgeted to increase 4% in 2019.

The 2019 Budget reflects the City's continued effort to practice conservative budgetary practices in order to preserve a solid financial position in the future.

Contacting the City's Financial Management

This financial report is designed to provide an overview and accountability of the City's finances. If you have questions about this report or need additional financial information, contact the Finance Director, City of Norwalk, 38 Whittlesey Avenue, P.O. Box 30, Norwalk, Ohio 44857.

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 5,982,945	\$ 6,375,411	\$ 12,358,356
Cash in segregated accounts	2,550	-	2,550
Receivables:			
Income taxes	1,474,254	294,886	1,769,140
Property and other taxes	1,366,743	-	1,366,743
Accounts	105,099	591,209	696,308
Payments in lieu of taxes	10,930	-	10,930
Accrued interest	68,056	-	68,056
Special assessments	42,989	11,628	54,617
Due from other governments	1,131,166	-	1,131,166
Notes receivable	1,075,956	-	1,075,956
Materials and supplies inventory	49,468	88,365	137,833
Capital assets:			
Nondepreciable capital assets	3,146,079	45,261	3,191,340
Depreciable capital assets, net	21,059,815	41,352,220	62,412,035
Total capital assets, net	<u>24,205,894</u>	<u>41,397,481</u>	<u>65,603,375</u>
Total assets	<u>35,516,050</u>	<u>48,758,980</u>	<u>84,275,030</u>
Deferred outflows of resources:			
OPEB	798,623	154,644	953,267
Pension	1,717,452	689,214	2,406,666
Total deferred outflows of resources	<u>2,516,075</u>	<u>843,858</u>	<u>3,359,933</u>
Total assets and deferred outflows of resources	<u>38,032,125</u>	<u>49,602,838</u>	<u>87,634,963</u>
Liabilities:			
Accounts payable	123,690	25,519	149,209
Accrued wages and benefits payable	140,219	76,825	217,044
Due to other governments	125,448	52,057	177,505
Due within one year	423,219	923,457	1,346,676
Due in more than one year:			
Net pension liability	9,648,009	2,992,058	12,640,067
Net OPEB liability	8,408,232	2,101,430	10,509,662
Other amount due in more than one year	1,950,212	12,930,570	14,880,782
Total liabilities	<u>20,819,029</u>	<u>19,101,916</u>	<u>39,920,945</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	1,312,873	-	1,312,873
Payment in lieu of tax revenue not available	10,930	-	10,930
OPEB	197,417	156,544	353,961
Pension	1,419,259	701,320	2,120,579
Total deferred inflows of resources	<u>2,940,479</u>	<u>857,864</u>	<u>3,798,343</u>
Total liabilities and deferred inflows of resources	<u>23,759,508</u>	<u>19,959,780</u>	<u>43,719,288</u>
Net position:			
Net investment in capital assets	22,915,628	28,008,717	50,924,345
Restricted for:			
Capital projects	1,022,258	-	1,022,258
Municipal court and programs	753,825	-	753,825
Transportation	812,053	-	812,053
Community development	481,386	-	481,386
Payroll stabilization	341,397	-	341,397
Other purposes	723,115	-	723,115
Unrestricted	(12,777,045)	1,634,341	(11,142,704)
Total net position	<u>\$ 14,272,617</u>	<u>\$ 29,643,058</u>	<u>\$ 43,915,675</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,644,195	\$ 1,033,615	\$ 330,918	\$ -	\$ (1,279,662)	\$ -	\$ (1,279,662)
Security of persons and property	8,855,962	213,766	132,284	774,507	(7,735,405)	-	(7,735,405)
Public health and welfare	86,173	-	-	-	(86,173)	-	(86,173)
Transportation	1,981,653	734	971,251	973,929	(35,739)	-	(35,739)
Community environment & development	426,904	320	235,538	68,225	(122,821)	-	(122,821)
Leisure time activity	2,166,464	1,096,906	21,970	204,066	(843,522)	-	(843,522)
Interest and fiscal charges	51,954	-	-	-	(51,954)	-	(51,954)
Total governmental activities	16,213,305	2,345,341	1,691,961	2,020,727	(10,155,276)	-	(10,155,276)
Business-type activities:							
Water	3,062,522	3,622,883	-	-	-	560,361	560,361
Sewer	3,431,662	3,837,710	-	-	-	406,048	406,048
Sanitation	1,646,198	11,154	-	-	-	(1,635,044)	(1,635,044)
Storm water	333,755	232,224	-	44,520	-	(57,011)	(57,011)
Total business-type activities	8,474,137	7,703,971	-	44,520	-	(725,646)	(725,646)
Total primary government	\$ 24,687,442	\$ 10,049,312	\$ 1,691,961	\$ 2,065,247	(10,155,276)	(725,646)	(10,880,922)
General revenues:							
Property and other taxes levied for:							
General purposes					583,965	-	583,965
Police					136,417	-	136,417
Fire					136,723	-	136,723
Recreation					245,586	-	245,586
Income taxes levied for:							
General purposes					5,095,333	-	5,095,333
Capital outlay					1,273,804	-	1,273,804
Sanitation					-	1,273,805	1,273,805
Payments in lieu of taxes					42,231	-	42,231
Grants and entitlements not restricted to specific programs					565,515	-	565,515
Investment earnings					142,719	-	142,719
Shared revenues					139,883	-	139,883
Other					631,074	141,614	772,688
Total general revenues before transfers					8,993,250	1,415,419	10,408,669
Transfers					26,955	(26,955)	-
Total general revenues and transfers					9,020,205	1,388,464	10,408,669
Change in net position					(1,135,071)	662,818	(472,253)
Net position at beginning of year (Restated)					15,407,688	28,980,240	44,387,928
Net position at end of year					\$ 14,272,617	\$ 29,643,058	\$ 43,915,675

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General	General Capital Improvements	Fire Station Construction	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 1,958,838	\$ 875,327	\$ 39,266	\$ 3,109,514	\$ 5,982,945
Cash in segregated accounts	2,550	-	-	-	2,550
Receivables:	-	-	-	-	-
Income taxes	1,179,368	294,886	-	-	1,474,254
Property and other taxes	632,120	-	-	734,623	1,366,743
Accounts	77,988	-	-	27,111	105,099
Payments in lieu of taxes	-	-	-	10,930	10,930
Accrued interest	68,056	-	-	-	68,056
Special assessments	12,119	30,870	-	-	42,989
Interfund	187,147	-	-	-	187,147
Notes receivable	-	-	-	1,075,956	1,075,956
Due from other governments	191,261	-	-	939,905	1,131,166
Materials and supplies inventory	-	-	-	49,468	49,468
Total assets	<u>\$ 4,309,447</u>	<u>\$ 1,201,083</u>	<u>\$ 39,266</u>	<u>\$ 5,947,507</u>	<u>\$ 11,497,303</u>
Liabilities:					
Accounts payable	\$ 34,739	\$ 8,507	\$ -	\$ 80,444	\$ 123,690
Accrued wages and benefits payable	104,124	-	-	36,095	140,219
Interfund payable	-	-	-	187,147	187,147
Due to other governments	41,718	-	-	83,730	125,448
Total liabilities	<u>180,581</u>	<u>8,507</u>	<u>-</u>	<u>387,416</u>	<u>576,504</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year	604,827	-	-	708,046	1,312,873
Delinquent property tax revenue not available	21,214	-	-	23,477	44,691
Accrued interest not available	58,806	-	-	-	58,806
Special assessments revenue not available	12,119	30,870	-	-	42,989
Payment in lieu of tax revenue not available	-	-	-	10,930	10,930
Income tax revenue not available	723,115	180,805	-	-	903,920
Nonexchange transactions not available	136,017	-	-	546,143	682,160
Total deferred inflows of resources	<u>1,556,098</u>	<u>211,675</u>	<u>-</u>	<u>1,288,596</u>	<u>3,056,369</u>
Total liabilities and deferred inflows of resources	<u>1,736,679</u>	<u>220,182</u>	<u>-</u>	<u>1,676,012</u>	<u>3,632,873</u>
Fund balances:					
Nonspendable	-	-	-	1,125,424	1,125,424
Restricted	-	-	39,266	2,863,648	2,902,914
Committed	-	980,901	-	282,423	1,263,324
Assigned	820,555	-	-	-	820,555
Unassigned	1,752,213	-	-	-	1,752,213
Total fund balances	<u>2,572,768</u>	<u>980,901</u>	<u>39,266</u>	<u>4,271,495</u>	<u>7,864,430</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,309,447</u>	<u>\$ 1,201,083</u>	<u>\$ 39,266</u>	<u>\$ 5,947,507</u>	<u>\$ 11,497,303</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018

Total governmental fund balances		\$	7,864,430
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			24,205,894
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:			
Income taxes receivable	\$	903,920	
Property and other taxes receivable		44,691	
Due from other governments receivable		682,160	
Special assessments receivable		42,989	
Investment income receivable		58,806	
Total		1,732,566	1,732,566
The net pension and OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in the governmental funds:			
Deferred outflows - pension		1,717,452	
Deferred inflows - pension		(1,419,259)	
Deferred outflows - OPEB		798,623	
Deferred inflows - OPEB		(197,417)	
Net OPEB liability		(8,408,232)	
Net pension liability		(9,648,009)	
Total		(17,156,842)	(17,156,842)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Compensated absences		(755,385)	
OWDA loan payable		(243,592)	
Capital lease payable		(941,641)	
OPWC loans payable		(105,033)	
Police and fire pension		(327,780)	
Total		(2,373,431)	(2,373,431)
Net position of governmental activities		\$	14,272,617

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General</u>	<u>General Capital Improvements</u>	<u>Fire Station Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 4,618,284	\$ 1,154,565	\$ -	\$ -	\$ 5,772,849
Property and other taxes	595,149	-	-	521,505	1,116,654
Charges for services	90,674	564	-	1,096,026	1,187,264
Licenses and permits	239,117	-	-	1,375	240,492
Fines and forfeitures	653,843	-	-	205,441	859,284
Payments in lieu of taxes	-	-	-	42,231	42,231
Intergovernmental	743,278	150,000	-	2,444,464	3,337,742
Special assessments	1,650	56,921	-	-	58,571
Investment income	122,693	-	-	5,895	128,588
Shared revenues	104,389	-	-	35,494	139,883
Other	391,204	111,696	-	128,174	631,074
Total revenues	<u>7,560,281</u>	<u>1,473,746</u>	<u>-</u>	<u>4,480,605</u>	<u>13,514,632</u>
Expenditures:					
Current:					
General government	2,051,197	46,684	-	208,220	2,306,101
Security of persons and property	4,478,720	-	-	931,721	5,410,441
Public health and welfare	86,173	-	-	-	86,173
Transportation	9,656	-	-	954,673	964,329
Community environment and development	14,201	-	-	370,583	384,784
Leisure time activity	-	-	-	1,766,511	1,766,511
Capital outlay	415,584	1,767,618	2,777,084	1,182,134	6,142,420
Debt service:					
Principal retirement	9,425	264,686	-	68,697	342,808
Interest and fiscal charges	2,971	29,984	-	18,999	51,954
Total expenditures	<u>7,067,927</u>	<u>2,108,972</u>	<u>2,777,084</u>	<u>5,501,538</u>	<u>17,455,521</u>
Excess (deficiency) of revenues over (under) expenditures	<u>492,354</u>	<u>(635,226)</u>	<u>(2,777,084)</u>	<u>(1,020,933)</u>	<u>(3,940,889)</u>
Other financing sources (uses):					
Sale of capital assets	12,895	-	-	-	12,895
Loan proceeds	-	-	-	30,000	30,000
Capital lease transaction	75,158	436,062	-	56,471	567,691
Transfers in	-	-	-	884,312	884,312
Transfers (out)	(836,320)	-	-	(21,037)	(857,357)
Total other financing sources (uses)	<u>(748,267)</u>	<u>436,062</u>	<u>-</u>	<u>949,746</u>	<u>637,541</u>
Net change in fund balances	(255,913)	(199,164)	(2,777,084)	(71,187)	(3,303,348)
Fund balances at beginning of year	<u>2,828,681</u>	<u>1,180,065</u>	<u>2,816,350</u>	<u>4,342,682</u>	<u>11,167,778</u>
Fund balances at end of year	<u>\$ 2,572,768</u>	<u>\$ 980,901</u>	<u>\$ 39,266</u>	<u>\$ 4,271,495</u>	<u>\$ 7,864,430</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Net change in fund balances - total governmental funds \$ (3,303,348)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$	3,687,693	
Capital Contributions		774,507	
Current year depreciation		<u>(1,357,942)</u>	
Total			3,104,258

When capital assets are disposed of, the cost of the capital assets is removed from the capital asset account in the statement of activities resulting in a loss on sale of capital assets in the statement of activities.

Proceeds from sale of capital assets	\$	(12,895)	
Loss on sale of capital assets		<u>7,562</u>	
Total			(5,333)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

762,140

Proceeds of loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.

(597,691)

Repayment of loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

342,808

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

930,381

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

(2,382,116)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

13,830

Change in net position of governmental activities \$ (1,135,071)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 5,088,063	\$ 4,726,000	\$ 4,892,252	\$ 166,252
Property and other taxes	612,647	585,050	589,070	4,020
Charges for services	82,238	62,320	79,073	16,753
Licenses, permits and fees	248,688	215,900	239,117	23,217
Intergovernmental	652,852	674,383	736,904	62,521
Special assessments	1,716	2,500	1,650	(850)
Investment income	282,081	165,000	271,225	106,225
Shared revenues	111,185	96,000	106,907	10,907
Fines and forfeitures	669,921	629,500	644,139	14,639
Other	508,310	106,400	379,571	273,171
Total revenues	<u>8,257,701</u>	<u>7,263,053</u>	<u>7,939,908</u>	<u>676,855</u>
Expenditures:				
Current:				
General government	2,312,606	2,404,603	2,123,885	280,718
Security of persons and property	4,634,990	4,825,142	4,583,941	241,201
Public health and welfare	103,500	103,500	86,173	17,327
Transportation	16,254	16,505	10,110	6,395
Community environment and development	16,254	16,375	14,232	2,143
Capital outlay	340,426	340,426	340,426	-
Debt service:				
Principal retirement	9,425	9,425	9,425	-
Interest and fiscal charges	2,971	2,971	2,971	-
Total expenditures	<u>7,436,426</u>	<u>7,718,947</u>	<u>7,171,163</u>	<u>547,784</u>
Excess of revenues over (under) expenditures	<u>821,275</u>	<u>(455,894)</u>	<u>768,745</u>	<u>1,224,639</u>
Other financing sources (uses):				
Advances in	-	-	200,000	200,000
Transfers (out)	(828,420)	(837,820)	(836,320)	1,500
Sale of assets	-	-	12,895	12,895
Total other financing sources (uses)	<u>(828,420)</u>	<u>(837,820)</u>	<u>(623,425)</u>	<u>214,395</u>
Net change in fund balances	(7,145)	(1,293,714)	145,320	1,439,034
Fund balance at beginning of year	1,810,566	1,810,566	1,810,566	-
Prior year encumbrances appropriated	184,947	184,947	184,947	-
Fund balance at end of year	<u>\$ 1,988,368</u>	<u>\$ 701,799</u>	<u>\$ 2,140,833</u>	<u>\$ 1,439,034</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Business-type Activities - Enterprise Funds				
	Major			Non-Major	Total
	Water	Sewer	Sanitation	Storm Water	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 2,363,169	\$ 2,996,846	\$ 913,308	\$ 102,088	\$ 6,375,411
Receivables:					
Income taxes	-	-	294,886	-	294,886
Accounts	269,779	292,247	10,000	19,183	591,209
Special assessments	-	11,628	-	-	11,628
Materials and supplies inventory	84,456	3,909	-	-	88,365
Total current assets	2,717,404	3,304,630	1,218,194	121,271	7,361,499
Noncurrent assets:					
Capital assets:					
Land and construction in progress	6,614	10,640	28,007	-	45,261
Depreciable capital assets, net	13,252,354	26,406,213	1,128,193	565,460	41,352,220
Total capital assets, net	13,258,968	26,416,853	1,156,200	565,460	41,397,481
Total assets	15,976,372	29,721,483	2,374,394	686,731	48,758,980
Deferred outflows of resources:					
OPEB	56,974	56,974	35,270	5,426	154,644
Pension	253,921	253,921	157,189	24,183	689,214
Total deferred outflows of resources	310,895	310,895	192,459	29,609	843,858
Total assets and deferred outflows of resources	16,287,267	30,032,378	2,566,853	716,340	49,602,838
Liabilities:					
Current liabilities:					
Accounts payable	6,107	4,866	14,546	-	25,519
Accrued wages and benefits payable	28,473	27,377	17,677	3,298	76,825
Compensated absences payable - current	12,339	14,600	8,295	1,121	36,355
Due to other governments	19,567	17,931	12,603	1,956	52,057
OWDA loans payable	140,676	589,960	-	-	730,636
OPWC loans payable	-	14,450	-	6,134	20,584
Capital lease obligations payable	54,644	54,643	832	25,763	135,882
Total current liabilities	261,806	723,827	53,953	38,272	1,077,858
Long-term liabilities:					
Compensated absences payable	145,572	172,258	97,853	13,225	428,908
OWDA loans payable	2,007,265	10,130,846	-	-	12,138,111
OPWC loans payable	-	14,450	-	174,825	189,275
Capital lease obligations payable	86,433	86,434	1,409	-	174,276
Net OPEB liability	774,211	774,211	479,274	73,734	2,101,430
Net pension liability	1,102,337	1,102,337	682,399	104,985	2,992,058
Total long-term liabilities	4,115,818	12,280,536	1,260,935	366,769	18,024,058
Total liabilities	4,377,624	13,004,363	1,314,888	405,041	19,101,916
Deferred inflows of resources:					
Pension	258,381	258,381	159,950	24,608	701,320
OPEB	57,674	57,674	35,703	5,493	156,544
Total deferred inflows of resources	316,055	316,055	195,653	30,101	857,864
Total liabilities and deferred inflows of resources	4,693,679	13,320,418	1,510,541	435,142	19,959,780
Net position:					
Net investment in capital assets	10,969,950	15,526,070	1,153,959	358,738	28,008,717
Unrestricted	623,638	1,185,890	(97,647)	(77,540)	1,634,341
Total net position	\$ 11,593,588	\$ 16,711,960	\$ 1,056,312	\$ 281,198	\$ 29,643,058

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Business-type Activities - Enterprise Funds

	Major			Non-Major Storm	Total
	Water	Sewer	Sanitation	Water	
Operating revenues:					
Charges for services	\$ 3,622,883	\$ 3,830,447	\$ 11,154	\$ 232,224	\$ 7,696,708
Other operating revenues	31,782	78,330	29,846	1,656	141,614
Total operating revenues	<u>3,654,665</u>	<u>3,908,777</u>	<u>41,000</u>	<u>233,880</u>	<u>7,838,322</u>
Operating expenses:					
Personal services	1,481,300	990,039	1,080,691	256,938	3,808,968
Contract services	554,530	823,617	367,812	23,286	1,769,245
Materials and supplies	457,053	217,298	85,874	15,841	776,066
Depreciation	483,188	877,283	111,567	37,561	1,509,599
Total operating expenses	<u>2,976,071</u>	<u>2,908,237</u>	<u>1,645,944</u>	<u>333,626</u>	<u>7,863,878</u>
Operating income (loss)	<u>678,594</u>	<u>1,000,540</u>	<u>(1,604,944)</u>	<u>(99,746)</u>	<u>(25,556)</u>
Nonoperating revenues (expenses):					
Income taxes	-	-	1,273,805	-	1,273,805
Interest and fiscal charges	(86,451)	(308,554)	(254)	(129)	(395,388)
Gain (loss) on sale of capital assets	-	(214,871)	-	-	(214,871)
Intergovernmental	-	-	-	44,520	44,520
Special assessments	-	7,263	-	-	7,263
Total nonoperating revenues (expenses)	<u>(86,451)</u>	<u>(516,162)</u>	<u>1,273,551</u>	<u>44,391</u>	<u>715,329</u>
Income before transfers	592,143	484,378	(331,393)	(55,355)	689,773
Transfer out	<u>(9,516)</u>	<u>(9,516)</u>	<u>(6,980)</u>	<u>(943)</u>	<u>(26,955)</u>
Change in net position	582,627	474,862	(338,373)	(56,298)	662,818
Net position at beginning of year (Restated)	<u>11,010,961</u>	<u>16,237,098</u>	<u>1,394,685</u>	<u>337,496</u>	<u>28,980,240</u>
Net position at end of year	<u>\$ 11,593,588</u>	<u>\$ 16,711,960</u>	<u>\$ 1,056,312</u>	<u>\$ 281,198</u>	<u>\$ 29,643,058</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-Type Activities - Enterprise Funds				
	Major			Non-Major	Total
	Water	Sewer	Sanitation	Storm Water	
Cash flows from operating activities:					
Cash received from customers	\$ 3,629,109	\$ 3,845,897	\$ 11,154	\$ 231,544	\$ 7,717,704
Cash received from other operations	31,782	78,330	19,846	1,656	131,614
Cash payments for personal services	(1,323,647)	(1,217,654)	(696,266)	(109,280)	(3,346,847)
Cash payments for contract services	(644,585)	(580,657)	(344,161)	(14,434)	(1,583,837)
Cash payments for materials and supplies	(474,924)	(258,943)	(83,593)	(37,377)	(854,837)
Net cash provided by (used in) operating activities	<u>1,217,735</u>	<u>1,866,973</u>	<u>(1,093,020)</u>	<u>72,109</u>	<u>2,063,797</u>
Cash flows from noncapital financing activities:					
Cash received from income taxes	-	-	1,223,063	-	1,223,063
Cash used in transfers out	(9,516)	(9,516)	(6,980)	(943)	(26,955)
Net cash provided by (used in) noncapital financing activities	<u>(9,516)</u>	<u>(9,516)</u>	<u>1,216,083</u>	<u>(943)</u>	<u>1,196,108</u>
Cash flows from capital and related financing activities:					
Capital grants	-	-	-	44,520	44,520
Acquisition of capital assets	(170,929)	(170,374)	(252,635)	(361,997)	(955,935)
Loan proceeds	-	5,000	-	163,466	168,466
Principal payments on bond anticipation notes	(300,000)	-	-	-	(300,000)
Principal retirement on capital lease	(38,867)	(38,867)	(757)	(27,745)	(106,236)
Principal retirement on OWDA loans	(136,062)	(873,564)	-	-	(1,009,626)
Principal retirement on OPWC loans	-	(21,675)	-	(3,067)	(24,742)
Interest and fiscal charges	(79,805)	(306,908)	(254)	(2,143)	(389,110)
Net cash used in capital and related financing activities	<u>(725,663)</u>	<u>(1,406,388)</u>	<u>(253,646)</u>	<u>(186,966)</u>	<u>(2,572,663)</u>
Net increase (decrease) in cash and cash equivalents	482,556	451,069	(130,583)	(115,800)	687,242
Cash and cash equivalents at beginning of year	<u>1,880,613</u>	<u>2,545,777</u>	<u>1,043,891</u>	<u>217,888</u>	<u>5,688,169</u>
Cash and cash equivalents at end of year	<u>\$ 2,363,169</u>	<u>\$ 2,996,846</u>	<u>\$ 913,308</u>	<u>\$ 102,088</u>	<u>\$ 6,375,411</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 678,594	\$ 1,000,540	\$ (1,604,944)	\$ (99,746)	\$ (25,556)
Adjustments:					
Depreciation	483,188	877,283	111,567	37,561	1,509,599
Changes in assets, deferred outflows, liabilities and deferred inflows:					
(Increase) decrease in accounts receivable	6,226	15,450	(10,000)	37,350	49,026
Decrease (increase) in materials and supplies inventory	(21,793)	665	-	-	(21,128)
(Increase) decrease in special assessments receivable	-	(7,263)	-	-	(7,263)
Increase (decrease) in accrued wages and benefits	7,081	4,054	7,725	2,155	21,015
Increase (decrease) in accounts payable	(20,375)	(16,396)	11,110	(10,630)	(36,291)
Increase (decrease) in compensated absences payable	(3,266)	(14,520)	4,923	901	(11,962)
(Increase) decrease in deferred outflows of resources - pension	503,929	536,879	172,311	8,767	1,221,886
(Increase) decrease in deferred outflows of resources - OPEB	(47,899)	(47,504)	(31,324)	(5,031)	(131,758)
Increase (decrease) in net pension liability	(752,005)	(832,628)	(123,837)	24,631	(1,683,839)
Increase (decrease) in net OPEB liability	125,608	97,407	197,272	45,533	465,820
Increase (decrease) in deferred inflows of resources - pension	198,865	196,277	134,073	24,440	553,655
Increase (decrease) in deferred inflows of resources - OPEB	57,674	57,674	35,703	5,492	156,543
(Decrease) increase in due to other governments	1,908	(945)	2,401	686	4,050
Net cash provided by (used in) operating activities	<u>\$ 1,217,735</u>	<u>\$ 1,866,973</u>	<u>\$ (1,093,020)</u>	<u>\$ 72,109</u>	<u>\$ 2,063,797</u>

Non-cash capital transactions:

During 2018, the water, sewer and storm water enterprise funds entered into capital lease purchase obligations of \$144,905, \$144,905 and \$25,760, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2018

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 35,826
Cash in segregated accounts	<u>44,672</u>
Total assets	<u><u>\$ 80,498</u></u>
Liabilities:	
Due to others	<u>\$ 80,498</u>
Total liabilities	<u><u>\$ 80,498</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - DESCRIPTION OF THE CITY

The City of Norwalk, Huron County, Ohio (the City) was incorporated in 1887 and chartered in 1972 under the laws of the State of Ohio.

The City operates under a Council-Mayor form of government and provides the following services: police and fire protection, water, sewer sanitation and storm water utility services, park operations, street maintenance and repair, as well as general governmental services. The City also includes the operations of a municipal court with jurisdiction extending beyond the boundaries of the City and is included as part of the primary government.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials are financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The City has no component units.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City.

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

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

Proprietary funds distinguish operating transactions from nonoperating transactions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating transactions of the City's proprietary funds are charges for sales and services, and include personnel and other expenses related to the operations of the enterprise activity. All other revenues and expenses not meeting these definitions are reported as nonoperating transactions.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Fund Accounting

The City uses funds to maintain its financial records during the year. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts. The City classifies each fund as either governmental, proprietary or fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

General capital improvements fund - This fund accounts for capital improvements and is funded by a 0.25% of income taxes collected by the City.

Fire station construction fund - This capital projects fund is used to account for transfers received from the City's capital investment trust fund in order to construct a new fire station.

Other governmental funds of the City are used to account for (a) financial resources that are restricted to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted to an expenditure for specified purposes other than debt service or capital projects.

Proprietary Funds - These funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Sewer fund - This fund accounts for the user charges and expenses of maintaining the sewer lines and facilities of the City.

Water fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Sanitation fund - This fund accounts for the operations of collecting and disposing of refuse and recyclables within the City and is primarily funded by income taxes collected by the City.

Other utility funds include the City's storm water utility fund.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has three agency funds which account for the City's Municipal Court, street openings, and unclaimed funds.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all deferred outflows, all liabilities and all deferred inflows associated with the operation of the City are included on the statement of net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current deferred outflows of resources, current liabilities and current deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus.

All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), interest, fines and forfeitures, fees, licenses and permits, and special assessments.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net assets by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

For the City, deferred outflows of resources have been reported for the following items related to the City's net pension liability and net other postemployment benefits liability: (1) the net difference between projected and actual investment earnings on pension plan assets, (2) the City's contributions to the pension systems subsequent to the measurement date and (3) differences between employer's contributions and the employer's proportional share of contributions.

Property taxes for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance year 2019 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2018, are recorded as deferred inflows on the governmental fund financial statements.

The City also reports deferred inflow of resources for the following items related to the City's net pension and other-post employment benefits liability: (1) the City's contributions to the pension systems subsequent to the measurement date and (2) differences between projected and actual investment earnings on pension plan assets. These deferred inflows of resources are only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, except agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each department within each fund. Any budgetary modifications at this level may only be made by resolution of the City's Council.

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the City determined that receipts collected will be greater than or less than the prior estimate and the Budget Commission finds the revised estimate to be reasonable.

On or before December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The amounts reported within the budgetary statements reflect the original and final estimated resources as certified by the County Budget Commission.

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The City legally adopted appropriation amendments during 2018. The budgetary statement reflects the original and final appropriations as approved by Council.

Encumbrances:

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

G. Cash and Cash Equivalents

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 financial statements. Interest earnings are allocated as authorized by State statute.

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. Investments are reported as assets.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City invested in STAR Ohio during 2018. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2018 amounted to \$122,693 which included \$102,487 assigned from other funds of the City.

H. Materials and Supplies Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the governmental activities and proprietary funds when used.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$5,000 for all assets excluding land, which has a capitalization threshold of \$0.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City’s infrastructure consists of culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities. All reported capital assets are depreciated except for land and intangibles. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 years	20 years
Buildings	6 to 99 years	6 to 99 years
Equipment	5 to 50 years	5 to 50 years
Infrastructure	10 to 50 years	10 to 75 years

J. Compensated Absences

Compensated absences of the City consist of vacation leave, sick leave, comp time and personal leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, “Accounting for Compensated Absences”, vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A vacation liability is recorded for accumulated unused vacation time for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City’s past experience of making termination payments.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, long-term notes, loans and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

L. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.

Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On fund financial statements, receivables and payables to cover deficit cash balances are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net position.

M. 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 classification includes amounts that cannot be spent because they are not in spendable form or legally 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 loans receivable in the general fund.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority).

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) it employed to previously commit those amounts. 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.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

N. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

O. Net Position

Net position represents the difference between assets plus deferred outflows less liabilities plus deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2018 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2018.

R. Fair Value

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

S. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction and from contributions from governmental funds.

T. Unamortized Bond Discounts/Accounting Gain or Loss

Bond discounts are amortized over the term of the bonds using the straight-line method. Bond discounts are presented as a reduction to the face amount of the bonds.

On the governmental fund financial statements bond discounts and net gains or losses from refunding are recognized in the current period.

U. Pensions/Other Postemployment Benefits (OPEB)

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - ACCOUNTABILITY

Change in Accounting Principles/Restatement of Net Position

For 2018, the City implemented GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, GASB Statement No. 81, *“Irrevocable Split-Interest Agreements”*, GASB Statement No. 85, *“Omnibus 2017”* and GASB Statement No. 86, *“Certain Deb Extinguishments”*.

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits. It also improves information provided by state and local governmental employers about financial support for postemployment benefits that is provided by other entities. The implementation of GASB Statement No. 75 affected the City’s postemployment benefit plan disclosures, as presented in Note 14 to the financial statements, and added required supplementary information which is presented after the notes to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement no. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the City.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the City.

A net position restatement is required in order to implement GASB Statement No. 75. In addition, the City has restated beginning net position to account for changes to the historical cost of capital assets, accumulated depreciation and also estimated useful lives.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - ACCOUNTABILITY - (Continued)

Finally, the City entered into an Ohio Public Works Loan that was initially paid by governmental activities but was determined to be a storm water fund liability. Governmental activities and business-type activities at January 1, 2018 have been restated as follows:

	Governmental Activities	Water	Sewer
Net position as previously reported	\$ 22,830,692	\$ 9,442,772	\$ 13,652,609
Net OPEB liability	(7,190,311)	(648,603)	(676,804)
Restatement of capital assets, net	(269,825)	2,207,717	3,251,823
Deferred outflows - payments subsequent to measurement date	16,572	9,075	9,470
Ohio public works loan	<u>20,560</u>	<u>-</u>	<u>-</u>
Restated net position at January 1, 2018	<u>\$ 15,407,688</u>	<u>\$ 11,010,961</u>	<u>\$ 16,237,098</u>
	Sanitation	Storm Water	Business-Type Activities
Net position as previously reported	\$ 1,474,521	\$ 376,422	\$ 24,946,324
Net OPEB liability	(282,002)	(28,200)	(1,635,609)
Restatement of capital assets, net	198,220	9,439	5,667,199
Deferred outflows - payments subsequent to measurement date	3,946	395	22,886
Ohio public works loan	<u>-</u>	<u>(20,560)</u>	<u>(20,560)</u>
Restated net position at January 1, 2018	<u>\$ 1,394,685</u>	<u>\$ 337,496</u>	<u>\$ 28,980,240</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 the City 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.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2, above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year end, the City had \$1,270 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and investments".

B. Cash in Segregated Accounts

At year-end, \$47,222 was on deposit for the City's furtherance of justice account and municipal court account and was held outside of the City's treasury. This amount is included in the total amount of deposits reported below and is reported on the financial statements as "cash in segregated accounts".

C. Deposits with Financial Institutions

At December 31, 2018, the carrying amount of all City deposits was \$227,242. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2018, \$563,713 of the City's bank balance of \$1,063,543 was exposed to custodial credit risk as discussed below, while \$499,830 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City has no deposit policy for custodial credit risk beyond the requirements of State statute.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the City's and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the City's financial institution was approved for a collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

D. Investments

As of December 31, 2018, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLMC	\$ 1,886,618	\$ -	\$ 495,120	\$ 736,125	\$ 655,373
FFCB	894,508	-	-	-	894,508
FNMA	496,175	-	496,175	-	-
Negotiable CD's	4,477,135	246,007	984,033	881,311	2,365,784
Commercial paper	2,431,893	1,203,320	1,228,573	-	-
STAR Ohio	1,958,360	1,958,360	-	-	-
U.S. Government Money Market	68,203	68,203	-	-	-
Total	<u>\$ 12,212,892</u>	<u>\$ 3,475,890</u>	<u>\$ 3,203,901</u>	<u>\$ 1,617,436</u>	<u>\$ 3,915,665</u>

The weighted average maturity of investments is 1.51 years. The City's investments in federal securities, commercial paper, and negotiable CD's are valued using quoted market prices (Level 2 inputs). Star Ohio and U.S. Government Money Market are valued at cost.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The federal agency securities carry a rating of AA+ and Aaa by Standard & Poor's and Moody, respectively.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The negotiable CDs are not rated. The City’s investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is 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.

The securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent but not in the City’s name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2018:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,886,618	15.45
FNMA	496,175	4.06
FFCB	894,508	7.32
Commercial paper	2,431,893	19.91
Negotiable CD's	4,477,135	36.66
STAR Ohio	1,958,360	16.04
U.S. Government Mondy Market	<u>68,203</u>	<u>0.56</u>
 Total	 <u>\$ 12,212,892</u>	 <u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2018:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per note</u>		
Carrying amount of deposits	\$	227,242
Investments		12,212,892
Cash on hand		<u>1,270</u>
Total	\$	<u><u>12,441,404</u></u>

<u>Cash and investments per statement of position</u>		
Governmental activities	\$	5,985,495
Business-type activities		6,375,411
Agency fund		<u>80,498</u>
Total	\$	<u><u>12,441,404</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at December 31, 2018, as reported on the fund statements as interfund receivables/payables consist of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Other governmental funds	\$ 187,147

The primary purpose of the interfund receivables/payables relates to short-term interfund loans. These interfund balances will be repaid once the anticipated revenues are received. The interfund balances are expected to be repaid within one year.

- B. Interfund transfers for the fiscal year ended December 31, 2018, consisted of the following, as reported on the fund financial statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 836,320
Water fund	Other governmental funds	9,516
Sewer fund	Other governmental funds	9,516
Sanitation fund	Other governmental funds	6,980
Storm water fund	Other governmental funds	943
Other Governmental funds	Other governmental funds	21,037

In accordance with budgetary authorizations, transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General fund to finance various programs. Transfers from the general fund to other governmental funds are were used to supplement operations.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers from the other governmental funds, water fund and sewer fund to the other governmental funds were for the purpose of funding the City's payroll stabilization fund. All transfers made in fiscal year 2018 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. 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 real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Norwalk. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2018 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2018 operations and the collection of delinquent taxes has been offset by a deferred inflow since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values of real and public utility property upon which 2018 property tax receipts were based are as follows:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 - PROPERTY TAXES - (Continued)

Real property tax	\$ 255,106,020
Public utility tangible personal property	<u>10,022,210</u>
Total assessed value	<u><u>\$ 265,128,230</u></u>

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.5% applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. The City gives a 100% credit to the tax paid to another municipality to the maximum of the total amount assessed. It also applies to the net income of business organizations located within the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2018 and is allocated to the general fund, sanitation fund and general capital improvements fund. Income tax revenue for 2018 was \$7,642,942 as reported in the statement of activities.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2018, consisted of taxes, payments in lieu of taxes, accounts (billings for user charged services), accrued interest, notes, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue.

All intergovernmental receivables have been classified as “due from other governments” on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2018. A summary of the principal items of receivables reported on the statement of net position follows:

Income taxes	\$ 1,474,254
Property and other taxes	1,366,743
Payments in lieu of taxes	10,930
Accounts	105,099
Special assessments	42,989
Accrued interest	68,056
Notes	1,075,956
Due from other governments	1,131,166
<u>Business-type activities:</u>	
Accounts	591,209
Income taxes	294,886
Special assessments	11,628

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 8 - RECEIVABLES - (Continued)

Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year are the special assessments and notes receivable that are collected over the life of the assessment/note.

NOTE 9 - CAPITAL ASSETS

A. Governmental activities capital asset activity, as restated, at December 31, 2018 as follows:

	Balance <u>12/31/17</u>	<u>Restatement</u>	Restated Balance <u>12/31/17</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/18</u>
Governmental activities:						
<i>Capital assets, not being depreciated:</i>						
Land	\$ 3,010,927	\$ 114,768	\$ 3,125,695	\$ -	\$ -	\$ 3,125,695
Construction in progress	<u>2,097,177</u>	<u>(75,526)</u>	<u>2,021,651</u>	<u>20,384</u>	<u>(2,021,651)</u>	<u>20,384</u>
Total capital assets, not depreciated	<u>5,108,104</u>	<u>39,242</u>	<u>5,147,346</u>	<u>20,384</u>	<u>(2,021,651)</u>	<u>3,146,079</u>
<i>Capital assets, being depreciated:</i>						
Land improvements	1,768,746	(14,286)	1,754,460	522,750	-	2,277,210
Buildings and improvements	7,778,082	(48,433)	7,729,649	3,978,718	-	11,708,367
Equipment	7,460,793	493,043	7,953,836	187,889	(379,548)	7,762,177
Infrastructure	<u>24,689,503</u>	<u>(2,928,716)</u>	<u>21,760,787</u>	<u>1,774,110</u>	<u>-</u>	<u>23,534,897</u>
Total capital assets, depreciated	<u>41,697,124</u>	<u>(2,498,392)</u>	<u>39,198,732</u>	<u>6,463,467</u>	<u>(379,548)</u>	<u>45,282,651</u>
<i>Less: accumulated depreciation</i>						
Land improvements	(1,291,840)	18,842	(1,272,998)	(75,887)	-	(1,348,885)
Buildings and improvements	(4,016,337)	2,025,726	(1,990,611)	(135,660)	-	(2,126,271)
Equipment	(5,340,571)	(204,235)	(5,544,806)	(325,876)	374,215	(5,496,467)
Infrastructure	<u>(14,779,686)</u>	<u>348,992</u>	<u>(14,430,694)</u>	<u>(820,519)</u>	<u>-</u>	<u>(15,251,213)</u>
Total accumulated depreciation	<u>(25,428,434)</u>	<u>2,189,325</u>	<u>(23,239,109)</u>	<u>(1,357,942)</u>	<u>374,215</u>	<u>(24,222,836)</u>
Total capital assets, being depreciated	<u>16,268,690</u>	<u>(309,067)</u>	<u>15,959,623</u>	<u>5,105,525</u>	<u>(5,333)</u>	<u>21,059,815</u>
Total capital assets, net	<u>\$ 21,376,794</u>	<u>\$ (269,825)</u>	<u>\$ 21,106,969</u>	<u>\$ 5,125,909</u>	<u>\$ (2,026,984)</u>	<u>\$ 24,205,894</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 36,557
Security persons and property	326,665
Leisure time activity	121,776
Transportation	<u>872,944</u>
Total depreciation expense - governmental activities	<u>\$ 1,357,942</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity, as restated, at December 31, 2018 as follows:

	Balance 12/31/17	Restatement	Restated Balance 12/31/17	Additions	Disposals	Balance 12/31/18
Business-type activities:						
<i>Capital assets, not depreciated:</i>						
Land	\$ 36,807	\$ 8,454	\$ 45,261	\$ -	\$ -	\$ 45,261
Construction in progress	8,597,704	26,026	8,623,730	-	(8,623,730)	-
Total capital assets, depreciated	<u>8,634,511</u>	<u>34,480</u>	<u>8,668,991</u>	-	<u>(8,623,730)</u>	<u>45,261</u>
<i>Capital assets, being depreciated:</i>						
Land improvements	1,150,719	22,154	1,172,873	-	-	1,172,873
Buildings and improvements	13,885,214	(6,700)	13,878,514	-	-	13,878,514
Equipment	11,732,559	(130,409)	11,602,150	884,057	(474,615)	12,011,592
Infrastructure	35,970,918	(48,263)	35,922,655	9,003,286	-	44,925,941
Total capital assets, depreciated	<u>62,739,410</u>	<u>(163,218)</u>	<u>62,576,192</u>	<u>9,887,343</u>	<u>(474,615)</u>	<u>71,988,920</u>
<i>Less: accumulated depreciation</i>						
Land improvements	(953,188)	(10,491)	(963,679)	(21,812)	-	(985,491)
Buildings and improvements	(6,081,603)	1,921,834	(4,159,769)	(201,259)	-	(4,361,028)
Equipment	(9,001,278)	243,855	(8,757,423)	(363,535)	259,744	(8,861,214)
Infrastructure	(19,146,713)	3,640,739	(15,505,974)	(922,993)	-	(16,428,967)
Total accumulated depreciation	<u>(35,182,782)</u>	<u>5,795,937</u>	<u>(29,386,845)</u>	<u>(1,509,599)</u>	<u>259,744</u>	<u>(30,636,700)</u>
Total capital assets, depreciated	<u>27,556,628</u>	<u>5,632,719</u>	<u>33,189,347</u>	<u>8,377,744</u>	<u>(214,871)</u>	<u>41,352,220</u>
Total capital assets, net	<u>\$ 36,191,139</u>	<u>\$ 5,667,199</u>	<u>\$ 41,858,338</u>	<u>\$ 8,377,744</u>	<u>\$ (8,838,601)</u>	<u>\$ 41,397,481</u>

NOTE 10 – CAPITAL LEASES

In years 2015, 2016, 2017 and 2018 the City entered into lease purchase agreements for vehicles and equipment.

General capital assets acquired by agreement have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a corresponding liability was recorded in the government-wide and business-type activity financial statements. Principal payments in 2018 totaled \$311,530. Principal and interest payments are made from the state highway fund, street fund, parks and recreation fund, aquatics fund, (nonmajor other governmental funds), the general fund, capital improvement fund, water fund, sewer fund, sanitation fund and the storm water fund.

New and existing equipment is being used by both governmental activities and business-type activities.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 – CAPITAL LEASES - (Continued)

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2018:

Year Ending <u>December 31,</u>	Governmental <u>Activities</u>	Water <u>Fund</u>	Sewer <u>Fund</u>	Sanitation <u>Fund</u>	Storm Water <u>Fund</u>
2019	\$ 265,513	\$ 60,438	\$ 60,436	\$ 1,011	\$ 26,873
2020	242,677	25,225	25,225	1,011	-
2021	203,578	24,164	24,164	506	-
2022	196,096	23,102	23,102	-	-
2023	<u>96,191</u>	<u>23,099</u>	<u>23,101</u>	<u>-</u>	<u>-</u>
Total minimum lease payments	1,004,055	156,028	156,028	2,528	26,873
Less: interest	<u>(62,414)</u>	<u>(14,951)</u>	<u>(14,951)</u>	<u>(287)</u>	<u>(1,110)</u>
Present value of future lease payments	<u>\$ 941,641</u>	<u>\$ 141,077</u>	<u>\$ 141,077</u>	<u>\$ 2,241</u>	<u>\$ 25,763</u>

NOTE 11 - SHORT-TERM OBLIGATIONS

The City's short-term note activity for the year ended December 31, 2018, was as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/18</u>
Water Fund:						
Bond anticipation note	4/27/2017	5.00%	\$ 300,000	\$ -	\$ (300,000)	\$ -
Total			<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ (300,000)</u>	<u>\$ -</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 12 - LONG-TERM OBLIGATIONS

A. Governmental Activities

During 2018, the following changes occurred in the governmental activities long-term obligations:

Governmental activities:	Interest Rate	Maturity Date	Restated Balance at 12/31/17	Additions	Reductions	Balance at 12/31/18	Amounts Due in One Year
<u>OPWC loans</u>							
Memorial reservoir spillway.	0.00%	12/31/18	\$ 20,742	\$ -	\$ (20,742)	\$ -	\$ -
East/west parkway construction	0.00%	07/01/22	31,250	-	(9,375)	21,875	6,250
Woodlawn avenue paving project phase III	0.00%	01/01/21	5,110	-	(2,190)	2,920	1,460
Woodlawn avenue paving project phase IV	0.00%	01/01/22	30,540	-	(10,180)	20,360	6,787
Bridge rehabilitation	0.00%	01/01/27	11,289	-	(1,783)	9,506	1,188
East main phase III	0.00%	07/01/23	6,000	-	(1,500)	4,500	1,000
Old state road widening phase I	0.00%	01/01/27	10,000	-	(750)	9,250	500
Old state road widening phase II	0.00%	01/01/28	-	30,000	(1,500)	28,500	3,000
Concrete street repair project	0.00%	07/01/33	8,963	-	(841)	8,122	560
Total OPWC loans			<u>123,894</u>	<u>30,000</u>	<u>(48,861)</u>	<u>105,033</u>	<u>20,745</u>
<u>Other long-term obligations</u>							
Police and fire pension	4.25%	11/1/2035	341,310	-	(13,530)	327,780	14,111
OWDA milan/chatham sewer project	3.90%	1/1/2022	318,715	-	(75,123)	243,592	78,082
Net pension liability			11,400,219	-	(1,752,210)	9,648,009	-
Net OPEB liability			7,190,311	1,217,921	-	8,408,232	-
Compensated absences			769,215	281,838	(295,668)	755,385	59,023
Capital lease agreements			579,244	567,691	(205,294)	941,641	251,258
Total other long-term obligations			<u>20,599,014</u>	<u>2,067,450</u>	<u>(2,341,825)</u>	<u>20,324,639</u>	<u>402,474</u>
Total governmental activities			<u>\$ 20,722,908</u>	<u>\$ 2,097,450</u>	<u>\$ (2,390,686)</u>	<u>\$ 20,429,672</u>	<u>\$ 423,219</u>

Compensated Absences:

Compensated absences are reported in the statement of net position and will be paid from the fund from which the employees' salaries are paid which will primarily be the general fund and other governmental funds.

OPWC Loans:

Ohio Public Works Commission Loans (OPWC) have been issued for various infrastructure improvements throughout the City and will be repaid from income taxes, special assessments and gasoline taxes as it relates to the fund that received the original loan proceeds.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the City's future annual debt service principal requirements for the OPWC loans:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>
2019	\$ 20,745
2020	20,745
2021	19,284
2022	9,373
2023	5,748
2024-2028	22,366
2029-2033	5,022
2034-2038	<u>1,750</u>
Total	<u>\$ 105,033</u>

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2018, the City's total debt margin was \$26,786,132 and the unvoted debt margin was \$14,030,831.

OWDA Loans:

Ohio Water Development Authority Loans (OWDA) have been issued for Milan/Chatham improvements will be repaid from income taxes it relates to the fund that received the original loan proceeds at an interest rate of 3.90%. The following is a summary of the City's future annual debt service principal and interest requirements for the OWDA loans:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 78,082	\$ 8,746	\$ 86,828
2020	81,157	5,671	86,828
2021	<u>84,353</u>	<u>2,475</u>	<u>86,828</u>
Total	<u>\$ 243,592</u>	<u>\$ 16,892</u>	<u>\$ 260,484</u>

Police and Fire Pension Service Cost:

The liability for police and fire pension service cost relates to the City's liability to previous employees prior to the establishment of the Ohio Police and Fire Pension Fund. The City is required to make payments of approximately \$27,900, including interest, annually through 2035. The liability is collateralized by the full faith and credit of the City. The following is a summary of the City's future and annual debt service principal and interest requirements for Police and Fire Pension Service Cost:

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 14,111	\$ 13,782	\$ 27,893
2020	14,717	13,176	27,893
2021	15,350	12,545	27,895
2022	15,989	24,885	40,874
2023	16,696	11,197	27,893
2024-2028	94,895	44,592	139,487
2029-2033	117,078	22,389	139,467
2034-2035	<u>38,944</u>	<u>1,640</u>	<u>40,584</u>
Total	<u>\$ 327,780</u>	<u>\$ 144,206</u>	<u>\$ 471,986</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Activities

During 2018, the following changes occurred in the business-type long-term obligations:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Restated Balance at 12/31/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/18</u>	<u>Due in One Year</u>
<u>OPWC Loan</u>							
Pleasant street pump	0.00%	12/01/2024	\$ 50,575	\$ -	\$ (21,675)	\$ 28,900	\$ 14,450
Milan avenue improvements	0.00%	01/01/2027	20,560	163,466	(3,067)	180,959	6,134
Total OPWC loan			<u>71,135</u>	<u>163,466</u>	<u>(24,742)</u>	<u>209,859</u>	<u>20,584</u>
<u>OWDA loans</u>							
Ward/parsons sewer construction	3.75%	07/01/19	63,793	-	(42,131)	21,662	21,662
Milan/chatham sewer project	3.90%	01/01/22	478,075	-	(112,686)	365,389	117,123
Wastewater treatment plant improve.	3.25%	01/01/27	4,387,792	-	(406,703)	3,981,089	418,748
Corwin street sewer improve.	3.67%	07/01/27	348,411	-	(31,268)	317,143	32,427
Water treatment improvement	2.94%	07/01/27	368,362	-	(35,853)	332,509	37,028
West main waterline replacement	2.82%	07/01/32	693,266	-	(39,308)	653,958	40,424
Norwood avenue waterline	4.78%	07/01/28	210,835	-	(15,882)	194,953	16,650
Old state route waterline	3.79%	07/01/34	572,753	-	(25,539)	547,214	26,517
Pleasant street combined overflow	2.24%	01/01/37	6,311,299	5,000	(280,776)	6,035,523	-
Milan avenue waterline replacement	2.95%	07/01/35	438,787	-	(19,480)	419,307	20,057
Total OWDA loans			<u>13,873,373</u>	<u>5,000</u>	<u>(1,009,626)</u>	<u>12,868,747</u>	<u>730,636</u>
<u>Other long-term obligations:</u>							
Capital lease obligation			100,824	315,570	(106,236)	310,158	135,882
Net pension liability			4,676,167	-	(1,684,109)	2,992,058	-
Net OPEB liability			1,635,609	465,821	-	2,101,430	-
Compensated absences			477,225	169,254	(181,216)	465,263	36,355
Total business-type activities			<u>\$ 20,834,333</u>	<u>\$ 1,119,111</u>	<u>\$ (3,005,929)</u>	<u>\$ 18,947,515</u>	<u>\$ 923,457</u>

Compensated Absences:

Compensated absences will be paid from the water, sewer, sanitation and stormwater enterprise funds.

OPWC Loans:

An OPWC loans was issued for improvements to the City's Pleasant street pump station and Milan avenue improvements. Principal payments are due in semi-annual installments at 0% interest rate.

The following is a summary of the City's future annual debt service principal requirements for the OPWC loans:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Year Ended <u>December 31,</u>	OPWC Loans Payable <u>Principal</u>
2019	\$ 20,584
2020	20,584
2021	6,134
2022	6,134
2023	6,134
2024-2028	30,670
2029-2033	30,670
2034-2038	30,670
2039-2043	30,670
2044-2048	27,609
Total	<u>\$ 209,859</u>

OWDA Loans:

The City has entered into debt financing arrangements through the Ohio Water Department Authority (OWDA) to fund various water and sewer related construction projects. The amounts due to the OWDA are payable solely from sewer and water revenues. The loan agreements function similar to a line-of-credit agreement. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through 2035. The annual requirements to retire OWDA principal and interest, excluding the Pleasant street combined overflow project, as follows:

Year Ended <u>December 31,</u>	<u>OWDA Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 730,636	\$ 228,643	\$ 959,279
2020	731,967	183,890	915,857
2021	755,720	160,371	916,091
2022	648,748	137,344	786,092
2023	668,924	121,345	790,269
2024-2028	2,682,208	276,908	2,959,116
2029-2033	544,926	56,549	601,475
2034-2035	70,095	1,831	71,926
Total	<u>\$ 6,833,224</u>	<u>\$ 1,166,881</u>	<u>\$ 8,000,105</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The City's Pleasant street combined overflow project has not been finalized. Once this project is completed, OWDA will finalize the terms and provide an amortization schedule for future principal and interest repayment.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

The net pension liability represents the 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.

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees 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 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):

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13- DEFINED BENEFIT PENSION PLANS - (Continued)

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
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 2.25 percent. Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2018 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits	<u>0.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$576,468 for 2018. Of this amount, \$20,297 is reported as due to other governments.

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F 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 OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.50% for each of the first 20 years of service credit, 2.00% for each of the next five years of service credit and 1.50% for each year of service credit in excess of 25 years. The maximum pension of 72.00% 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.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 a statutory authority for member and employer contributions as follows:

	Police	Fire
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.0 %
Employee	12.25 %	12.25 %
 2018 Actual Contribution Rates		
Employer:		
Pension	19.0 %	23.5 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.5 %	24.0 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was \$682,500 for 2018. Of this amount, \$83,554 is reported as an due to other governments.

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

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.0355040%	0.126526%	
Proportion of the net pension liability current measurement date	<u>0.0334600%</u>	<u>0.120422%</u>	
Change in proportionate share	<u>-0.002044%</u>	<u>-0.006104%</u>	
Proportionate share of the net pension liability	\$ 5,249,225	\$ 7,390,842	\$ 12,640,067
Pension expense	820,812	1,348,036	2,168,848

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

	<u>OPERS - Traditional</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 5,361	\$ 131,500	\$ 136,861
Changes of assumptions	627,318	383,519	1,010,837
City contributions subsequent to the measurement date	576,468	682,500	1,258,968
Total deferred outflows of resources	<u>\$ 1,209,147</u>	<u>\$ 1,197,519</u>	<u>\$ 2,406,666</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 103,446	\$ 890,194	\$ 993,640
Net difference between projected and actual earnings on pension plan investments	1,126,939	-	1,126,939
Total deferred inflows of resources	<u>\$ 1,230,385</u>	<u>\$ 890,194</u>	<u>\$ 2,120,579</u>

\$1,258,968 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2019	\$ (1,193,913)	\$ (179,640)	\$ (1,373,553)
2020	(52,207)	(116,084)	(168,291)
2021	500,334	(57,546)	442,788
2022	446,476	(21,946)	424,530
2023	(298,396)	41	(298,355)
Total	<u>\$ (597,706)</u>	<u>\$ (375,175)</u>	<u>\$ (972,881)</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below:

Wage inflation	3.25%
Future salary increases, including inflation COLA or ad hoc COLA	3.25% to 10.75% including wage inflation Pre 1/7/2013 retirees: 3.00%, simple Post 1/7/2013 retirees: 3.00%, simple through 2018, then 2.15% simple
Investment rate of return	7.50%
Actuarial cost method	Individual entry age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.20 %
Domestic equities	19.00	6.37
Real estate	10.00	5.26
Private equity	10.00	8.97
International equities	20.00	7.88
Other investments	18.00	5.26
Total	100.00 %	5.66 %

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined 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 benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) 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	\$9,321,287	\$5,249,225	\$1,854,353

Changes between Measurement Date and Report Date

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net pension liability is not known.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F'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. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	January 1, 2017	January 1, 2016
Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus	Inflation rate of 3.25 percent plus
Cost of Living Adjustments	productivity increase rate of 0.5 percent 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	productivity increase rate of 0.5 percent 3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

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

For the January 1, 2016 valuation, rates of death were 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.

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2017 are summarized below:

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

Note: assumptions are geometric.

* levered 2x

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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 following table presents the net pension liability calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 10,245,645	\$ 7,390,842	\$ 5,062,489

NOTE 14 – DEFINED BENEFIT OPEB PLANS

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

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

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

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

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

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

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

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 a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contractually required contribution to OP&F was \$16,188 for 2018. Of this amount, \$1,993 is reported as an due to other governments.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.033950%	0.1204220%	
Prior Measurement Date	<u>0.027920%</u>	<u>0.1265260%</u>	
 Change in Proportionate Share	 <u>0.0060300%</u>	 <u>-0.0061040%</u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$3,686,720	\$6,822,942	\$10,509,662
 OPEB Expense	 \$909,495	 \$520,330	 \$1,429,825

Actuarial Assumptions - OPERS

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

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

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

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$4,897,967	\$3,686,720	\$2,706,834

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

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

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

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$3,527,405	\$3,686,720	\$3,851,288

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

	OPERS - Traditional	OP&F	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 2,872	\$ 665,775	\$ 668,647
Changes of assumptions	268,432	-	268,432
City contributions subsequent to the measurement date	-	16,188	16,188
Total deferred outflows of resources	\$ 271,304	\$ 681,963	\$ 953,267
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 274,636	\$ 79,325	353,961
Total deferred inflows of resources	\$ 274,636	\$ 79,325	\$ 353,961

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

\$16,188 is reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2019	\$ 61,052	\$ 78,764	\$ 139,816
2020	61,052	78,763	139,815
2021	(56,777)	78,763	21,986
2022	(68,659)	78,763	10,104
2023	-	89,991	89,991
Thereafter	-	181,406	181,406
Total	<u>\$ (3,332)</u>	<u>\$ 586,450</u>	<u>\$ 583,118</u>

Changes between Measurement Date and Report Date

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City’s OPEB liability is not known.

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

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

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

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

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

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

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011. The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2017, are summarized below:

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

Note: assumptions are geometric.

* levered 2x

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

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members.

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

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

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$8,528,760	\$6,822,942	\$5,510,390

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – DEFINED BENEFIT OPEB PLANS- (Continued)

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$5,300,184	\$6,822,942	\$8,875,104

Changes between Measurement Date and Report Date

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

NOTE 15 - RISK MANAGEMENT

A. Liability Insurance

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The City has a comprehensive property and casualty policy with a deductible of \$1,000 per incident. The City's vehicle liability insurance policy limit is \$3,000,000 with a \$1,000 collision deductible. All Council members, administrators and employees are covered under a City liability policy. The limits of this coverage are \$3,000,000 per occurrence and \$5,000,000 in the aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction of coverage from the prior year.

B. Fidelity Bonds

The Mayor, Finance Director, Municipal Court Judge and Clerk of Courts have a \$100,000 position bond. The Law Director has a \$5,000 position bond. All other City employees are covered by a \$50,000 blanket bond.

C. Workers Compensation

The City participates in the State of Ohio Workers Compensation System, an insurance purchasing pool, at a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 145,320
Net adjustment for revenue accruals	(379,627)
Net adjustment for expenditure accruals	(59,588)
Net adjustment for other sources/uses	(124,842)
Adjustment for encumbrances	162,824
GAAP basis	\$ (255,913)

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 17 – TAX ABATEMENTS

The City provides tax abatements under the following programs which meet the criteria set forth under the requirements of GASB Statement No. 77: the Industrial/Commercial Community Reinvestment Area Program and the Economic Development Job Creation and Retention Program.

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Section 5709, the City has established Community Reinvestment Areas (CRA) for any industrial or commercial property project improvements made to parcel(s) following specific return-on-investment formulas and guidelines approved by City Council. No taxes were abated at December 31, 2018.

Income Tax Abatement Programs

The City has created an Economic Development and Job Creation and Retention Program and Enterprise Zone Agreements for purposes of retaining the City’s competitiveness in local job creation. The City provides an incentive to the company’s gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business.

The abatement is administered as a refund or credit based upon the company’s payroll taxes. Also, the time period of the incentive in years, is determined by how many new jobs are to be created by the respective businesses.

City Council’s Incentive Criteria for Decision Making

The City has offered tax incentives and CRA abatements to various businesses based upon substantial project investment into the City. The City has created a return on investment formula it considers before entering into any such agreements. This return on investment formula considers the financial impact not only to the City but also other local governments in surrounding counties that may be impacted. Below is the information relevant to the disclosure of these programs for the year ended December 31, 2018:

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) for 2018 (In Actual Dollars)
<i>Income Tax Abatement Programs</i>	
- Manufacturing	\$37,887

Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Norwalk and the Norwalk City School District and Edison Local School District in line with section 5709.82 of the Ohio Revised Code, created various compensation agreements. These agreements state various reimbursement percentages which require municipal income tax sharing when new income tax collections meet stipulations within the compensation agreements. Based on these agreements, the City compensated the Norwalk City School District \$7,426 and the Edison Local School District \$20,340 for the year ended December 31, 2018.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2018.

B. Litigation

The City is involved in no material litigation as either plaintiff or defendant.

NOTE 19 - OTHER COMMITMENTS

A. Encumbrances

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 153,791
General capital improvement	298,493
Other governmental	<u>366,162</u>
Total governmental funds	<u>818,446</u>
Water	100,072
Sewer	135,073
Sanitation	64,101
Storm Water	<u>1,934</u>
Total proprietary funds	<u>301,180</u>
Total	<u><u>\$ 1,119,626</u></u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 20 - FUND BALANCE

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 resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund balance	General	General Capital Improvements	Fire Station Construction	Other Governmental	Total Governmental Funds
Nonspendable:					
Notes	\$ -	\$ -	\$ -	\$ 1,075,956	\$ 1,075,956
Materials & supplies inventory	-	-	-	49,468	49,468
Total nonspendable	-	-	-	1,125,424	1,125,424
Restricted:					
Capital improvements	-	-	39,266	771,317	810,583
Economic development	-	-	-	262,262	262,262
Police and fire protection	-	-	-	137,379	137,379
Courts	-	-	-	753,825	753,825
Transportation	-	-	-	592,580	592,580
Payroll stabilization	-	-	-	341,397	341,397
Other purposes	-	-	-	4,888	4,888
Total restricted	-	-	39,266	2,863,648	2,902,914
Committed:					
Capital improvements	-	980,901	-	64,696	1,045,597
Parks and recreation	-	-	-	217,727	217,727
Total committed	-	980,901	-	282,423	1,263,324
Assigned:					
Community environment	43	-	-	-	43
Security persons & property	77,819	-	-	-	77,819
Subsequent year appropriations	666,764	-	-	-	666,764
General government	75,929	-	-	-	75,929
Total assigned	820,555	-	-	-	820,555
Unassigned	1,752,213	-	-	-	1,752,213
Total fund balances	<u>\$ 2,572,768</u>	<u>\$ 980,901</u>	<u>\$ 39,266</u>	<u>\$ 4,271,495</u>	<u>\$ 7,864,430</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST FIVE YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.033460%	0.035504%	0.035929%	0.036343%	0.036343%
City's proportionate share of the net pension liability	\$ 5,249,225	\$ 8,062,356	\$ 6,223,356	\$ 4,348,406	\$ 4,279,741
City's covered-employee payroll	\$ 4,251,000	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	123.48%	181.60%	103.15%	85.22%	82.45%
Plan fiduciary net position as a percentage of the total pension liability	84.66%	77.25%	81.08%	86.45%	86.36%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST FIVE YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.12042200%	0.12652600%	0.12237900%	0.12726800%	0.12726800%
City's proportionate share of the net pension liability	\$ 7,390,842	\$ 8,014,030	\$ 7,872,700	\$ 6,593,148	\$ 6,198,478
City's covered-employee payroll	\$ 2,908,126	\$ 2,624,892	\$ 2,487,940	\$ 2,676,671	\$ 2,495,305
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	254.14%	305.31%	316.43%	246.32%	248.41%
Plan fiduciary net position as a percentage of the total pension liability	70.91%	68.36%	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY PENSION CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST SIX YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>						
Contractually required contribution	\$ 576,468	\$ 552,630	\$ 532,751	\$ 723,986	\$ 612,330	\$ 674,768
Contributions in relation to the contractually required contribution	<u>(576,468)</u>	<u>(552,630)</u>	<u>(532,751)</u>	<u>(723,986)</u>	<u>(612,330)</u>	<u>(674,768)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,117,629	\$ 4,251,000	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY PENSION CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST SIX YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>						
Contractually required contribution	\$ 330,825	\$ 310,842	\$ 271,348	\$ 254,802	\$ 282,264	\$ 262,406
Contributions in relation to the contractually required contribution	<u>(330,825)</u>	<u>(310,842)</u>	<u>(271,348)</u>	<u>(254,802)</u>	<u>(282,264)</u>	<u>(262,406)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,741,184	\$ 1,636,011	\$ 1,428,147	\$ 1,306,677	\$ 1,447,508	\$ 1,345,672
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	19.50%	19.50%	19.50%
<i>Fire:</i>						
Contractually required contribution	\$ 351,675	\$ 298,947	\$ 281,235	\$ 283,503	\$ 294,999	\$ 275,912
Contributions in relation to the contractually required contribution	<u>(351,675)</u>	<u>(298,947)</u>	<u>(281,235)</u>	<u>(283,503)</u>	<u>(294,999)</u>	<u>(275,912)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,496,489	\$ 1,272,115	\$ 1,196,745	\$ 1,181,263	\$ 1,229,163	\$ 1,149,633
Contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	24.00%	24.00%	24.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TWO YEARS

	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability	0.033950%	0.027920%
City's proportionate share of the net OPEB liability	\$ 3,686,720	\$ 2,820,015
City's covered-employee payroll	\$ 4,251,000	\$ 4,439,592
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	86.73%	63.52%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%	54.14%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TWO YEARS

	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability	0.120422%	0.126526%
City's proportionate share of the net OPEB liability	\$ 6,822,942	\$ 6,005,905
City's covered-employee payroll	\$ 2,908,126	\$ 2,624,892
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	234.62%	228.81%
Plan fiduciary net position as a percentage of the total OPEB liability	14.13%	14.13%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY OPEB CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST SIX YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>						
Contractually required contribution	\$ -	\$ 39,458	\$ 88,792	\$ 94,914	\$ 95,950	\$ 51,905
Contributions in relation to the contractually required contribution	<u>-</u>	<u>(39,458)</u>	<u>(88,792)</u>	<u>(94,914)</u>	<u>(95,950)</u>	<u>(51,905)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,117,629	\$ 4,251,000	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
Contributions as a percentage of covered-employee payroll	0.00%	1.00%	2.00%	2.00%	2.00%	1.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY OPEB CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST SIX YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>						
Contractually required contribution	\$ 9,378	\$ 25,374	\$ 22,205	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(9,378)</u>	<u>(25,374)</u>	<u>(22,205)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,741,184	\$ 1,636,011	\$ 1,428,147	\$ 1,306,677	\$ 1,447,508	\$ 1,345,672
Contributions as a percentage of covered-employee payroll	0.54%	1.55%	1.55%	0.00%	0.00%	0.00%
<i>Fire:</i>						
Contractually required contribution	\$ 6,810	\$ 29,641	\$ 22,916	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(6,810)</u>	<u>(29,641)</u>	<u>(22,916)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,496,489	\$ 1,272,115	\$ 1,196,745	\$ 1,181,263	\$ 1,229,163	\$ 1,149,633
Contributions as a percentage of covered-employee payroll	0.46%	2.33%	1.91%	0.00%	0.00%	0.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

PENSION

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following were the most significant changes of assumptions that affected the total pension since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.50% down to 8.00%, (b) changing the future salary increases from a range of 4.25%-11.00% to 3.75%-10.50%, (c) reduction in payroll increases from 3.75% down to 3.25%, (d) reduction in inflation assumptions from 3.25% down to 2.75% and (e) Cost of Living Adjustments (COLA) were reduced from 2.60% and 3.00% simple to 2.20% and 3.00% simple.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) DROP interest rate was reduced from 4.50% to 4.00%, (b) CPI-based COLA was reduced from 2.60% to 2.20%, (c) investment rate of return was reduced from 8.25% to 8.00%, (d) salary increases were reduced from 3.75% to 3.25% and (e) payroll growth was reduced from 3.75% to 3.25%.

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

City of Norwalk
Huron County
38 Whittlesey Avenue
P.O. Box 30
Norwalk, Ohio 44857

To the City Council and Management:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norwalk, Huron County, (the City) as of and for the year ended December 31, 2018, 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 10, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and restatement of capital assets and loan liability.

Internal Control Over Financial Reporting

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

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

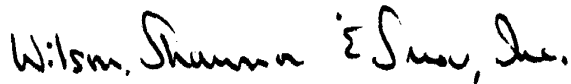
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

Compliance and Other Matters

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

Purpose of this Report

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



June 10, 2019
Newark, Ohio

OHIO AUDITOR OF STATE KEITH FABER



CITY OF NORWALK

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 11, 2019**