



Dave Yost • Auditor of State



**CITY OF WAUSEON  
FULTON COUNTY  
DECEMBER 31, 2017**

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CITY OF WAUSEON  
FULTON COUNTY  
DECEMBER 31, 2017

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of Wauseon  
Fulton County  
230 Clinton Street  
Wauseon, Ohio 43567-2104

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, 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.



**Dave Yost**  
Auditor of State

Columbus, Ohio

October 2, 2018

## **CITY OF WAUSEON, OHIO**

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

***Unaudited***

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

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2017 are as follows:

- ❑ In total, net position increased \$112,976. Net position of governmental activities decreased \$16,713, which represents less than a 1% change from 2016. Net position of business-type activities increased \$129,689 or approximately 1% from 2016.
- ❑ General revenues accounted for \$5,049,181 in revenue or 51% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,852,458, 49% of total revenues of \$9,901,639.
- ❑ The City had \$6,764,676 in expenses related to governmental activities; only \$1,734,604 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$5,013,359 were not adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$4,741,891 in revenues and \$4,698,300 in expenditures. The general fund's fund balance increased from \$962,606 to \$1,010,379.

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

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

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

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

# CITY OF WAUSEON, OHIO

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

*Unaudited*

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## **Government-wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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



## CITY OF WAUSEON, OHIO

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

**Unaudited**

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

### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$7,304,041	\$8,141,013	\$5,627,657	\$5,297,167	\$12,931,698	\$13,438,180
Capital Assets, Net	16,129,876	15,114,595	14,652,434	14,998,724	30,782,310	30,113,319
Total Assets	<u>23,433,917</u>	<u>23,255,608</u>	<u>20,280,091</u>	<u>20,295,891</u>	<u>43,714,008</u>	<u>43,551,499</u>
Deferred Outflows of Resources	<u>2,147,849</u>	<u>1,863,053</u>	<u>491,452</u>	<u>382,754</u>	<u>2,639,301</u>	<u>2,245,807</u>
Net Pension Liability	5,351,061	4,522,676	1,278,528	1,011,315	6,629,589	5,533,991
Long-term Liabilities	3,196,084	3,673,739	3,380,701	3,731,481	6,576,785	7,405,220
Other Liabilities	187,832	101,685	91,849	61,557	279,681	163,242
Total Liabilities	<u>8,734,977</u>	<u>8,298,100</u>	<u>4,751,078</u>	<u>4,804,353</u>	<u>13,486,055</u>	<u>13,102,453</u>
Deferred Inflows of Resources	<u>691,038</u>	<u>648,097</u>	<u>36,025</u>	<u>19,541</u>	<u>727,063</u>	<u>667,638</u>
Net Position						
Net Investment in Capital Assets	13,427,576	13,177,278	11,376,912	11,359,606	24,804,488	24,536,884
Restricted	2,690,762	2,825,706	0	0	2,690,762	2,825,706
Unrestricted	37,413	169,480	4,607,528	4,495,145	4,644,941	4,664,625
Total Net Position	<u>\$16,155,751</u>	<u>\$16,172,464</u>	<u>\$15,984,440</u>	<u>\$15,854,751</u>	<u>\$32,140,191</u>	<u>\$32,027,215</u>

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

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

## ***CITY OF WAUSEON, OHIO***

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

***Unaudited***

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

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

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

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

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

## CITY OF WAUSEON, OHIO

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

*Unaudited*

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services and Sales	\$1,168,821	\$900,947	\$3,117,854	\$3,158,806	\$4,286,675	\$4,059,753
Operating Grants and Contributions	516,021	494,029	0	0	516,021	494,029
Capital Grants and Contributions	49,762	1,379,700	0	0	49,762	1,379,700
Total Program Revenues	<u>1,734,604</u>	<u>2,774,676</u>	<u>3,117,854</u>	<u>3,158,806</u>	<u>4,852,458</u>	<u>5,933,482</u>
General revenues:						
Property Taxes	518,369	519,886	0	0	518,369	519,886
Income Taxes	4,161,137	4,040,835	0	0	4,161,137	4,040,835
Intergovernmental Revenues, Unrestricted	182,339	171,889	0	0	182,339	171,889
Investment Earnings	48,624	25,297	35,822	17,617	84,446	42,914
Miscellaneous	102,890	113,249	0	0	102,890	113,249
Total General Revenues	<u>5,013,359</u>	<u>4,871,156</u>	<u>35,822</u>	<u>17,617</u>	<u>5,049,181</u>	<u>4,888,773</u>
Total Revenues	<u>6,747,963</u>	<u>7,645,832</u>	<u>3,153,676</u>	<u>3,176,423</u>	<u>9,901,639</u>	<u>10,822,255</u>
Program Expenses						
Security of Persons and Property	3,579,371	3,249,412	0	0	3,579,371	3,249,412
Basic Utility Services	72,987	87,609	0	0	72,987	87,609
Leisure Time Activities	677,428	639,967	0	0	677,428	639,967
Community Environment	243,754	165,839	0	0	243,754	165,839
Transportation	1,060,286	957,378	0	0	1,060,286	957,378
General Government	1,026,982	736,279	0	0	1,026,982	736,279
Interest and Fiscal Charges	103,868	108,403	0	0	103,868	108,403
Water	0	0	1,546,462	1,526,055	1,546,462	1,526,055
Wastewater	0	0	1,477,525	1,470,271	1,477,525	1,470,271
Total Expenses	<u>6,764,676</u>	<u>5,944,887</u>	<u>3,023,987</u>	<u>2,996,326</u>	<u>9,788,663</u>	<u>8,941,213</u>
Change in Net Position Before Transfers	(16,713)	1,700,945	129,689	180,097	112,976	1,881,042
Transfers	0	210,545	0	(210,545)	0	0
Total Change in Net Position	(16,713)	1,911,490	129,689	(30,448)	112,976	1,881,042
Beginning Net Position	16,172,464	14,260,974	15,854,751	15,885,199	32,027,215	30,146,173
Ending Net Position	<u>\$16,155,751</u>	<u>\$16,172,464</u>	<u>\$15,984,440</u>	<u>\$15,854,751</u>	<u>\$32,140,191</u>	<u>\$32,027,215</u>

### Governmental Activities

Net position of the City's governmental activities decreased \$16,713, or less than 1%. Increased demand for inter-hospital transportation for patients resulted in an increase in charges for services. Funding received in the prior year from the Ohio Department of Transportation for improvements to Linfoot Street resulted in a subsequent decrease in capital grants in 2017. The City transitioned from outsourcing fire services to having a full time City fire department, which resulted in an increase in security of persons and property.

## CITY OF WAUSEON, OHIO

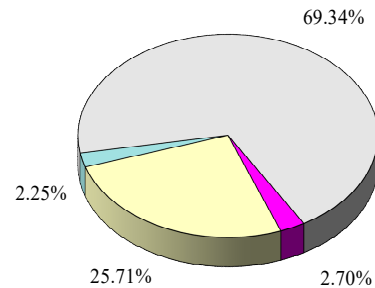
**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City.

Income taxes and property taxes made up 62% and 8% respectively of revenues for governmental activities in 2017. The City's reliance upon tax revenues is demonstrated by the following graph indicating 69% of total revenues from general tax revenues:

Revenue Sources	2017	Percent of Total
General Tax Revenues	\$4,679,506	69.34%
Intergovernmental, Unrestricted	182,339	2.70%
Program Revenues	1,734,604	25.71%
General Other	151,514	2.25%
Total Revenue	\$6,747,963	100.00%



### **Business-Type Activities**

Net position of business-type activities increased \$129,689. This represents a change of approximately 1% from the previous year. Revenues and expenses remained consistent with the previous year.

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

The City's governmental funds reported a combined fund balance of \$5,117,639, which is a decrease from last year's balance of \$5,917,649. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2017 and 2016:

	Fund Balance December 31, 2017	Fund Balance December 31, 2016	Increase (Decrease)
General	\$1,010,379	\$962,606	\$47,773
Income Tax Capital Improvement	2,594,288	3,445,322	(851,034)
Other Governmental	1,512,972	1,509,721	3,251
Total	\$5,117,639	\$5,917,649	(\$800,010)

## **CITY OF WAUSEON, OHIO**

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

**Unaudited**

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

	2017 <u>Revenues</u>	2016 <u>Revenues</u>	Increase <u>(Decrease)</u>
Taxes	\$3,354,287	\$3,249,322	\$104,965
Intergovernmental Revenue	265,723	257,245	8,478
Charges for Services	922,366	645,067	277,299
Licenses and Permits	72,706	79,875	(7,169)
Investment Earnings	14,541	20,555	(6,014)
Fines and Forfeitures	19,143	16,273	2,870
All Other Revenue	93,125	100,179	(7,054)
Total	<u>\$4,741,891</u>	<u>\$4,368,516</u>	<u>\$373,375</u>

General Fund revenues increased approximately 9% when compared to revenues in 2016. An increase in taxes was the result of an increase in income taxes. Increased withholding taxes can be attributed to increased construction in the City. Also contributing to the increase in income taxes were changes in the Ohio municipal tax law. Increased demand for inter-hospital transportation for patients resulted in an increase in charges for services.

	2017 <u>Expenditures</u>	2016 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$3,075,951	\$2,768,953	\$306,998
Basic Utility Services	21,231	35,494	(14,263)
Leisure Time Activities	509,075	500,843	8,232
Community Environment	84,933	179,104	(94,171)
Transportation	290,865	293,951	(3,086)
General Government	715,015	627,985	87,030
Capital Outlay	1,230	2,498	(1,268)
Total	<u>\$4,698,300</u>	<u>\$4,408,828</u>	<u>\$289,472</u>

General Fund expenditures increased \$289,472, or 7% when compared with the previous year. The City transitioned from outsourcing fire services to having a full time City fire department, which resulted in an increase in security of persons and property. Upon the retirement of the City zoning inspector, the City began paying the County for inspection services in lieu of hiring a new inspector. This resulted in a decrease in community environment.

## **CITY OF WAUSEON, OHIO**

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

***Unaudited***

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*Income Tax Capital Improvement Fund* – The Income Tax Capital Improvement fund balance decreased approximately 25%. This decrease can be attributed to outlays for a pool construction project.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of 2017 the City amended its General Fund budget several times.

For the General Fund, original budgeted, final budgeted and actual budget basis revenues were not significantly different. Actual budget basis expenditures of \$4.7 million were 4% less than final and original budget estimates.

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

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

At the end of 2017 the City had \$30,782,310 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, equipment and vehicles. Of this total, \$16,129,876 was related to governmental activities and \$14,652,434 to the business-type activities. The following tables show 2017 and 2016 balances:

	Governmental Activities		Increase (Decrease)
	2017	2016	
Land	\$1,504,579	\$1,504,579	\$0
Construction In Progress	1,214,013	0	1,214,013
Buildings	3,643,707	3,643,626	81
Improvements Other than Buildings	3,631,033	3,651,037	(20,004)
Machinery and Equipment	4,331,059	4,535,502	(204,443)
Infrastructure	11,163,780	10,828,505	335,275
Less: Accumulated Depreciation	(9,358,295)	(9,048,654)	(309,641)
Totals	<u>\$16,129,876</u>	<u>\$15,114,595</u>	<u>\$1,015,281</u>

An increase in infrastructure can be attributed to routine street maintenance. The construction of a new City swimming pool resulted in the increase in construction in progress. In 2017 the City increased its capitalization level to \$5,000, resulting in decreases in various asset categories.

**CITY OF WAUSEON, OHIO**

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

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2017	2016	
Land	\$103,710	\$103,710	\$0
Construction in Progress	186,000	0	186,000
Buildings	8,561,210	8,578,770	(17,560)
Improvements other than Buildings	15,394,840	15,388,999	5,841
Machinery and Equipment	5,502,065	5,507,519	(5,454)
Less: Accumulated Depreciation	(15,095,391)	(14,580,274)	(515,117)
Totals	\$14,652,434	\$14,998,724	(\$346,290)

Business-type additions to capital assets included machinery and equipment purchases in both the water and wastewater departments. Construction in progress consisted of a wastewater bio-solids processing project.

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

**Debt**

The following table summarizes the City's long term obligations outstanding as of December 31, 2017 and 2016:

	2017	2016
Governmental Activities:		
General Obligation Bonds	\$2,925,000	\$3,330,000
Net Pension Liability	5,351,061	4,522,676
Compensated Absences	271,084	343,739
Total Governmental Activities	8,547,145	8,196,415
Business-Type Activities:		
Ohio Water Development Authority Loans	2,355,522	2,502,118
Long Term Note Payable	920,000	1,137,000
Net Pension Liability	1,278,528	1,011,315
Compensated Absences	105,179	92,363
Total Business-Type Activities	4,659,229	4,742,796
Totals	\$13,206,374	\$12,939,211

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2017, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

## ***CITY OF WAUSEON, OHIO***

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

***Unaudited***

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### **ECONOMIC FACTORS**

The City of Wauseon is the county seat of Fulton County, located in the northwest corner of Ohio. The City's main source of revenue is a 1.5% income tax levied on residents of the City and nonresidents working within the City. Income tax revenues collected are allocated between the General Fund and the Capital Projects Fund. Income tax receipts for 2017 were up by approximately 5.93% when compared to 2016.

The City is experiencing continued economic stability as income tax receipts have been increased steadily for the past seven (7) years. Conservative budgeting continues to be a reflection of the general economic climate as well as State mandated local government funds reduction and the elimination of the estate tax. Continued employment is key to the stability and growth of the City's revenue stream.

The two types of employers with the largest number of employees are manufacturing and governmental/health.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or the need for additional financial information should be directed to Jamie L. Giguere, Director of Finance, City of Wauseon at 419-335-9022 or [jamie.giguere@cityofwauseon.com](mailto:jamie.giguere@cityofwauseon.com).



## CITY OF WAUSEON, OHIO

### Statement of Net Position December 31, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 2,251,186	\$ 3,994,429	\$ 6,245,615
Investments	1,773,987	933,982	2,707,969
Receivables:			
Taxes	1,151,010	0	1,151,010
Accounts	108,879	371,090	479,969
Intergovernmental	280,631	0	280,631
Interest	2,678	0	2,678
Special Assessments	1,075,766	0	1,075,766
Loans	47,998	116,424	164,422
Inventory of Supplies at Cost	46,778	190,083	236,861
Prepaid Items	67,531	21,649	89,180
Restricted Assets:			
Cash and Cash Equivalents	482,498	0	482,498
Cash and Cash Equivalents with Fiscal Agent	15,099	0	15,099
Non-Depreciable Capital Assets	2,718,592	289,710	3,008,302
Depreciable Capital Assets, Net	13,411,284	14,362,724	27,774,008
<b>Total Assets</b>	<b>23,433,917</b>	<b>20,280,091</b>	<b>43,714,008</b>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	733,759	491,452	1,225,211
OP&F	1,414,090	0	1,414,090
<b>Total Deferred Outflows of Resources</b>	<b>2,147,849</b>	<b>491,452</b>	<b>2,639,301</b>
<b>Liabilities:</b>			
Accounts Payable	102,526	64,781	167,307
Accrued Wages and Benefits	76,165	22,100	98,265
Intergovernmental Payable	1,394	0	1,394
Accrued Interest Payable	7,747	4,968	12,715
Noncurrent Liabilities:			
Due Within One Year	555,636	1,128,815	1,684,451
Due in More Than One Year:			
Net Pension Liability	5,351,061	1,278,528	6,629,589
Other Amounts Due in More Than One Year	2,640,448	2,251,886	4,892,334
<b>Total Liabilities</b>	<b>8,734,977</b>	<b>4,751,078</b>	<b>13,486,055</b>
<b>Deferred Inflows of Resources:</b>			
Property Tax Levy for Next Fiscal Year	583,410	0	583,410
Pension:			
OPERS	53,790	36,025	89,815
OP&F	53,838	0	53,838
<b>Total Deferred Inflows of Resources</b>	<b>691,038</b>	<b>36,025</b>	<b>727,063</b>
<b>Net Position:</b>			
Net Investment in Capital Assets	13,427,576	11,376,912	24,804,488
Restricted For:			
Capital Projects	1,074,687	0	1,074,687
Other Purposes	1,616,075	0	1,616,075
Unrestricted	37,413	4,607,528	4,644,941
<b>Total Net Position</b>	<b>\$ 16,155,751</b>	<b>\$ 15,984,440</b>	<b>\$ 32,140,191</b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 3,579,371	\$ 1,063,814	\$ 73,862	\$ 12,367
Basic Utility Services	72,987	3,210	0	0
Leisure Time Activities	677,428	0	0	15,236
Community Environment	243,754	4,168	64,539	0
Transportation	1,060,286	0	377,620	22,159
General Government	1,026,982	97,629	0	0
Interest and Fiscal Charges	103,868	0	0	0
<b>Total Governmental Activities</b>	<b>6,764,676</b>	<b>1,168,821</b>	<b>516,021</b>	<b>49,762</b>
<b>Business-Type Activities:</b>				
Water	1,546,462	1,644,495	0	0
Wastewater	1,477,525	1,473,359	0	0
<b>Total Business-Type Activities</b>	<b>3,023,987</b>	<b>3,117,854</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 9,788,663</b>	<b>\$ 4,286,675</b>	<b>\$ 516,021</b>	<b>\$ 49,762</b>

**General Revenues**

Property Taxes Levied for:  
    General Purposes  
    Parks and Recreation  
Income Taxes  
Other Local Taxes  
Intergovernmental Revenues, Unrestricted  
Investment Earnings  
Miscellaneous  
Total General Revenues

Change in Net Position

Net Position Beginning of Year  
Net Position End of Year

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,429,328)	\$ 0	\$ (2,429,328)
(69,777)	0	(69,777)
(662,192)	0	(662,192)
(175,047)	0	(175,047)
(660,507)	0	(660,507)
(929,353)	0	(929,353)
(103,868)	0	(103,868)
<u>(5,030,072)</u>	<u>0</u>	<u>(5,030,072)</u>
0	98,033	98,033
0	(4,166)	(4,166)
<u>0</u>	<u>93,867</u>	<u>93,867</u>
<u>\$ (5,030,072)</u>	<u>\$ 93,867</u>	<u>\$ (4,936,205)</u>
226,576	0	226,576
291,793	0	291,793
4,161,137	0	4,161,137
24	0	24
182,339	0	182,339
48,624	35,822	84,446
<u>102,866</u>	<u>0</u>	<u>102,866</u>
<u>5,013,359</u>	<u>35,822</u>	<u>5,049,181</u>
(16,713)	129,689	112,976
<u>16,172,464</u>	<u>15,854,751</u>	<u>32,027,215</u>
<u>\$ 16,155,751</u>	<u>\$ 15,984,440</u>	<u>\$ 32,140,191</u>

**CITY OF WAUSEON, OHIO**

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

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 329,405	\$ 1,401,257	\$ 520,524	\$ 2,251,186
Investments	263,281	1,115,995	394,711	1,773,987
Receivables:				
Taxes	700,162	140,525	310,323	1,151,010
Accounts	93,541	15,338	0	108,879
Intergovernmental	99,652	0	180,979	280,631
Interest	2,678	0	0	2,678
Special Assessments	1,079	1,074,687	0	1,075,766
Loans	0	0	47,998	47,998
Inventory of Supplies, at Cost	30,777	0	16,001	46,778
Prepaid Items	67,531	0	0	67,531
Restricted Assets:				
Cash and Cash Equivalents	0	0	482,498	482,498
Cash and Cash Equivalents with Fiscal Agent	0	0	15,099	15,099
<b>Total Assets</b>	<b>\$ 1,588,106</b>	<b>\$ 3,747,802</b>	<b>\$ 1,968,133</b>	<b>\$ 7,304,041</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 43,276	\$ 57,685	\$ 1,565	\$ 102,526
Accrued Wages and Benefits Payable	69,872	0	6,293	76,165
Intergovernmental Payable	1,394	0	0	1,394
Compensated Absences Payable	1,197	0	0	1,197
<b>Total Liabilities</b>	<b>115,739</b>	<b>57,685</b>	<b>7,858</b>	<b>181,282</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable Amounts	185,922	1,095,829	139,959	1,421,710
Property Tax Levy for Next Fiscal Year	276,066	0	307,344	583,410
<b>Total Deferred Inflows of Resources</b>	<b>461,988</b>	<b>1,095,829</b>	<b>447,303</b>	<b>2,005,120</b>
<b>Fund Balance:</b>				
Nonspendable	98,308	0	63,999	162,307
Restricted	0	222,700	1,448,973	1,671,673
Committed	0	2,371,588	0	2,371,588
Assigned	589,285	0	0	589,285
Unassigned	322,786	0	0	322,786
<b>Total Fund Balance</b>	<b>1,010,379</b>	<b>2,594,288</b>	<b>1,512,972</b>	<b>5,117,639</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 1,588,106</b>	<b>\$ 3,747,802</b>	<b>\$ 1,968,133</b>	<b>\$ 7,304,041</b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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

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<b>Total Governmental Fund Balances</b>		\$ 5,117,639
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		16,129,876
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		1,421,710
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	2,147,849	
Deferred Inflows - Pension	(107,628)	
Net Pension Liability	<u>(5,351,061)</u>	(3,310,840)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds Payable	(2,925,000)	
Compensated Absences Payable	(269,887)	
Accrued Interest Payable	<u>(7,747)</u>	<u>(3,202,634)</u>
 <b><i>Net Position of Governmental Activities</i></b>		 <b><u><u>\$ 16,155,751</u></u></b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 3,354,287	\$ 1,042,267	\$ 292,837	\$ 4,689,391
Intergovernmental Revenue	265,723	34,526	591,513	891,762
Charges for Services	922,366	106,948	0	1,029,314
Licenses and Permits	72,706	0	0	72,706
Investment Earnings	14,541	33,024	1,059	48,624
Fines and Forfeitures	19,143	0	34,619	53,762
All Other Revenue	93,125	6,333	18,644	118,102
<b>Total Revenue</b>	<b>4,741,891</b>	<b>1,223,098</b>	<b>938,672</b>	<b>6,903,661</b>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	3,075,951	0	10,111	3,086,062
Basic Utility Services	21,231	0	0	21,231
Leisure Time Activities	509,075	0	6,001	515,076
Community Environment	84,933	29,028	115,529	229,490
Transportation	290,865	0	505,578	796,443
General Government	715,015	0	0	715,015
Capital Outlay	1,230	1,826,466	0	1,827,696
Debt Service:				
Principal Retirement	0	0	405,000	405,000
Interest & Fiscal Charges	0	0	104,543	104,543
<b>Total Expenditures</b>	<b>4,698,300</b>	<b>1,855,494</b>	<b>1,146,762</b>	<b>7,700,556</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	43,591	(632,396)	(208,090)	(796,895)
<b>Other Financing Sources (Uses):</b>				
Transfers In	0	0	509,543	509,543
Transfers Out	0	(218,638)	(290,905)	(509,543)
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>(218,638)</b>	<b>218,638</b>	<b>0</b>
Net Change in Fund Balance	43,591	(851,034)	10,548	(796,895)
<b>Fund Balance at Beginning of Year</b>	<b>962,606</b>	<b>3,445,322</b>	<b>1,509,721</b>	<b>5,917,649</b>
Increase (Decrease) in Inventory	4,182	0	(7,297)	(3,115)
<b>Fund Balance End of Year</b>	<b>\$ 1,010,379</b>	<b>\$ 2,594,288</b>	<b>\$ 1,512,972</b>	<b>\$ 5,117,639</b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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***Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Year Ended December 31, 2017***

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Net Change in Fund Balances - Total Governmental Funds \$ (796,895)

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

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

Capital Outlay	2,053,380	
Depreciation Expense	(831,537)	1,221,843

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(206,562)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(155,698)
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		412,238
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(968,051)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

General Obligation Bond Principal Retirement	405,000	
Accrued Interest Payable	675	405,675

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

Compensated Absences	73,852	
Change in Inventory	(3,115)	70,737

<b><i>Change in Net Position of Governmental Activities</i></b>		<b><u>\$ (16,713)</u></b>
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See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 3,499,229	\$ 3,404,911	\$ 3,404,905	\$ (6)
Intergovernmental Revenue	241,499	252,087	252,100	13
Charges for Services	856,671	931,283	931,215	(68)
Licenses and Permits	10,650	71,687	71,686	(1)
Investment Earnings	20,000	14,631	14,712	81
Fines and Forfeitures	16,700	17,770	17,776	6
All Other Revenues	186,000	93,095	93,956	861
Total Revenues	<u>4,830,749</u>	<u>4,785,464</u>	<u>4,786,350</u>	<u>886</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	3,159,363	3,116,913	3,074,110	42,803
Basic Utility Services	66,760	36,760	21,924	14,836
Leisure Time Activities	714,653	565,753	508,714	57,039
Community Environment	140,937	106,637	85,423	21,214
Transportation	443,465	312,965	301,296	11,669
General Government	769,364	786,114	725,155	60,959
Capital Outlay	3,000	3,000	1,230	1,770
Total Expenditures	<u>5,297,542</u>	<u>4,928,142</u>	<u>4,717,852</u>	<u>210,290</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(466,793)	(142,678)	68,498	211,176
<b>Other Financing Sources (Uses):</b>				
Transfers In	150,000	0	0	0
Total Other Financing Sources (Uses):	<u>150,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(316,793)	(142,678)	68,498	211,176
Fund Balance at Beginning of Year	440,060	440,060	440,060	0
Prior Year Encumbrances	60,621	60,621	60,621	0
Fund Balance at End of Year	<u>\$ 183,888</u>	<u>\$ 358,003</u>	<u>\$ 569,179</u>	<u>\$ 211,176</u>

See accompanying notes to the basic financial statements



**CITY OF WAUSEON, OHIO**

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

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Wastewater	
<b>Assets:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,650,730	\$ 2,343,699	\$ 3,994,429
Investments	0	933,982	933,982
Receivables:			
Accounts	189,734	181,356	371,090
Loans	116,424	0	116,424
Inventory of Supplies at Cost	177,606	12,477	190,083
Prepaid Items	4,616	17,033	21,649
<b>Total Current Assets</b>	2,139,110	3,488,547	5,627,657
Noncurrent Assets:			
Capital Assets, Net	7,077,749	7,574,685	14,652,434
<b>Total Assets</b>	9,216,859	11,063,232	20,280,091
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	262,001	229,451	491,452
<b>Total Deferred Outflows of Resources</b>	262,001	229,451	491,452
<b>Liabilities:</b>			
Current Liabilities:			
Accounts Payable	40,713	24,068	64,781
Accrued Wages and Benefits	13,467	8,633	22,100
Compensated Absences Payable - Current	35,200	22,071	57,271
Accrued Interest Payable	4,968	0	4,968
General Obligation Notes Payable	920,000	0	920,000
OWDA Loans Payable - Current	17,811	133,733	151,544
<b>Total Current Liabilities</b>	1,032,159	188,505	1,220,664
Noncurrent Liabilities:			
OWDA Loans Payable	98,613	2,105,365	2,203,978
Compensated Absences Payable	23,865	24,043	47,908
Net Pension Liability	681,605	596,923	1,278,528
<b>Total Noncurrent Liabilities</b>	804,083	2,726,331	3,530,414
<b>Total Liabilities</b>	1,836,242	2,914,836	4,751,078
<b>Deferred Inflows of Resources:</b>			
Pension:			
OPERS	19,205	16,820	36,025
<b>Total Deferred Inflows of Resources</b>	19,205	16,820	36,025
<b>Net Position:</b>			
Net Investment in Capital Assets	6,041,325	5,335,587	11,376,912
Unrestricted	1,582,088	3,025,440	4,607,528
<b>Total Net Position</b>	\$ 7,623,413	\$ 8,361,027	\$ 15,984,440

See accompanying notes to the basic financial statements

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**CITY OF WAUSEON, OHIO**

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

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<b>Operating Revenues:</b>			
Charges for Services	\$ 1,596,150	\$ 1,462,996	\$ 3,059,146
<b>Total Operating Revenues</b>	<u>1,596,150</u>	<u>1,462,996</u>	<u>3,059,146</u>
<b>Operating Expenses:</b>			
Personal Services	712,369	644,624	1,356,993
Contractual Services	193,635	161,419	355,054
Materials and Supplies	285,578	175,946	461,524
Depreciation	248,845	387,863	636,708
<b>Total Operating Expenses</b>	<u>1,440,427</u>	<u>1,369,852</u>	<u>2,810,279</u>
<b>Operating Income</b>	155,723	93,144	248,867
<b>Non-Operating Revenues (Expenses):</b>			
Interest Income	12,873	22,949	35,822
Interest and Fiscal Charges	(16,772)	(78,037)	(94,809)
Loss on Disposal of Capital Assets	(30,616)	(19,094)	(49,710)
Other Nonoperating Revenue	48,345	10,363	58,708
Other Nonoperating Expense	(58,647)	(10,542)	(69,189)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(44,817)</u>	<u>(74,361)</u>	<u>(119,178)</u>
<b>Change in Net Position</b>	110,906	18,783	129,689
<b>Net Position Beginning of Year</b>	<u>7,512,507</u>	<u>8,342,244</u>	<u>15,854,751</u>
<b>Net Position End of Year</b>	<u>\$ 7,623,413</u>	<u>\$ 8,361,027</u>	<u>\$ 15,984,440</u>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,659,990	\$1,472,926	\$3,132,916
Cash Payments for Goods and Services	(550,018)	(336,297)	(886,315)
Cash Payments to Employees	(606,330)	(559,553)	(1,165,883)
Net Cash Provided by Operating Activities	<u>503,642</u>	<u>577,076</u>	<u>1,080,718</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(127,383)	(195,595)	(322,978)
Notes Issued	920,000	0	920,000
Note Retirement	(1,137,000)	0	(1,137,000)
OWDA Loan Retirement	(17,222)	(129,374)	(146,596)
Interest Paid on All Debt	(16,502)	(78,037)	(94,539)
Net Cash Used by Capital and Related Financing Activities	<u>(378,107)</u>	<u>(403,006)</u>	<u>(781,113)</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	0	(936,976)	(936,976)
Sale of Investments	0	955,791	955,791
Receipts of Interest	12,873	1,147	14,020
Net Cash Provided by Investing Activities	<u>12,873</u>	<u>19,962</u>	<u>32,835</u>
Net Increase in Cash and Cash Equivalents	138,408	194,032	332,440
Cash and Cash Equivalents at Beginning of Year	<u>1,512,322</u>	<u>2,149,667</u>	<u>3,661,989</u>
Cash and Cash Equivalents at End of Year	<u>\$1,650,730</u>	<u>\$2,343,699</u>	<u>\$3,994,429</u>

(Continued)

**CITY OF WAUSEON, OHIO**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$155,723	\$93,144	\$248,867
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	248,845	387,863	636,708
Miscellaneous Nonoperating Revenue	65,204	10,363	75,567
Miscellaneous Nonoperating Expense	(58,647)	(10,542)	(69,189)
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:			
Increase in Accounts Receivable	(1,364)	(433)	(1,797)
Increase in Inventory	(20,859)	(1,963)	(22,822)
Decrease in Prepaid Items	2,401	10,296	12,697
Increase in Deferred Outflows of Resources	(55,884)	(52,814)	(108,698)
Increase in Accounts Payable	6,300	3,277	9,577
Increase (Decrease) in Accrued Wages and Benefits	3,493	(198)	3,295
Increase in Compensated Absences	12,746	70	12,816
Increase in Net Pension Liability	137,002	130,211	267,213
Increase in Deferred Inflows of Resources	8,682	7,802	16,484
Total Adjustments	347,919	483,932	831,851
Net Cash Provided by Operating Activities	<u>\$503,642</u>	<u>\$577,076</u>	<u>\$1,080,718</u>

See accompanying notes to the basic financial statements

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# **CITY OF WAUSEON, OHIO**

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

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

The City of Wauseon (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution, the laws of the State of Ohio and its Charter. Wauseon became a city on April 20, 1981, and operates under a Council/Mayor form of government.

The financial statements are presented as of December 31, 2017 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

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

The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: public safety, highways and streets, sanitation, health and social services, culture/recreation, public improvements, planning and zoning, and general administrative services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

#### **Jointly Governed Organizations**

The City in conjunction with the Clinton Township Trustees formed the Wauseon Union Cemetery (the "Cemetery") under the authority of Ohio Revised Code Section 759.27. The Cemetery's Board of Trustees is composed of three members, one of whom is a member of the Board of Township Trustees and one a member of the Wauseon City Council. Funding for the Cemetery is provided by a tax levy on all real property located within Clinton Township. Taxes are collected by the County Auditor and remitted to the Board of Cemetery Trustees for use in the care and maintenance of the Cemetery.

The Wauseon Ohio Advanced Energy Improvement District (the District) is a not for profit entity established pursuant to Ohio Revised Code (ORC) Chapter 1710. The District was created by legislative action taken by participating political subdivisions and is governed by the District's board of trustees. The participating political subdivisions include Rupp Unlimited Property Partnership, LLC and the City of Wauseon. The District was established to develop and implement special energy improvement projects as defined by ORC Chapter 1710, and is therefore subject to special assessments. The City paid \$11,295 to the District in 2017.

## **CITY OF WAUSEON, OHIO**

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

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

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

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

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

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

**Income Tax Capital Improvement Fund** - This fund is used to account for the financial resources used for the major capital projects undertaken by the City. These financial resources include 25% of City income tax receipts.

##### ***Proprietary Funds***

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

The enterprise funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities, and deferred outflows/inflows of resources associated with the operation of these funds are included on the balance sheet. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The City's major enterprise funds are:

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

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



## ***CITY OF WAUSEON, OHIO***

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

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

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

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus.

The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and deferred outflows/inflows of resources and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

## **CITY OF WAUSEON, OHIO**

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

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

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

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

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

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes, interest on investments, loans and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred inflows of resources. Property taxes measurable as of December 31, 2017 but which are not intended to finance 2017 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 5.

## **CITY OF WAUSEON, OHIO**

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

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

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

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

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

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is at the fund and function level. Budgetary modifications may only be made by ordinance or resolution of the City Council.

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

Prior to fiscal year 2002, the Finance Director would submit an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget was submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year. Beginning in fiscal year 2002, this requirement was waived by the County Budget Commission.

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## **CITY OF WAUSEON, OHIO**

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

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

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

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

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

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

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the function level. The budgetary figures which appear in the Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual Non-GAAP Budgetary Basis for the General Fund is provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

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

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

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

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

**CITY OF WAUSEON, OHIO**

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

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

**E. Budgetary Process** (Continued)

6. Budgetary Basis of Accounting

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

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

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	\$43,591
Increase (Decrease):	
Accrued Revenues at December 31, 2017 received during 2018	(435,124)
Accrued Revenues at December 31, 2016 received during 2017	479,583
Accrued Expenditures at December 31, 2017 paid during 2018	115,739
Accrued Expenditures at December 31, 2016 paid during 2017	(79,118)
2016 Prepays for 2017	34,865
2017 Prepays for 2018	(67,531)
Outstanding Encumbrances	(23,507)
Budget Basis	<u><u>\$68,498</u></u>

# **CITY OF WAUSEON, OHIO**

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

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

#### **F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of three months or less.

The City pools a majority of its cash for investment and resource management purposes, while maintaining some segregated funds. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

#### **G. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and GASB Statement No. 72, "Fair Value Measurement and Application," the City records all its investments at fair value except for nonparticipating investment contracts which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statements.

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. The City allocates interest among the various funds as determined by City Ordinance. See Note 4, "Cash, Cash Equivalents and Investments." Interest revenue credited to the general fund during 2017 amounted to \$14,541, which includes \$12,431 assigned from other funds.

#### **H. Inventory**

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

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

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

# CITY OF WAUSEON, OHIO

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

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

#### **J. Capital Assets and Depreciation**

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000.

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

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

Contributed capital assets are recorded at acquisition value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

##### 2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at acquisition value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

##### 3. Depreciation

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

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Buildings	30
Improvements other than Buildings	30 - 50
Infrastructure	30
Machinery, Equipment, Furniture and Fixtures	10

# **CITY OF WAUSEON, OHIO**

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

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

#### **K. Long-Term Obligations**

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

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loans	Water Fund, Wastewater Fund
Compensated Absences	General Fund, Street Construction, Maintenance and Repair Fund, Water Fund, Wastewater Fund
Long Term Note Payable/GO Bonds	Bond Retirement Fund, Water Fund

#### **L. Compensated Absences**

All full-time City employees earn vacation at varying rates based upon length of service. Ohio Law requires that vacation time not be accumulated for more than three years. However, City policy requires that all vacation time be used by the employee's anniversary date. Accrued vacation may be carried over with the written authorization of the department head. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment.

All full-time City employees earn sick leave at the rate of 1.25 days per calendar month of active service. Unused sick time may be accumulated until retirement. Police department employees with a minimum of ten years of service with the City are paid one-quarter of the accumulated sick time upon retirement to a maximum of 60 days wages. All other employees with a minimum of ten years of service with the City are paid 35% of the accumulated sick time upon retirement to a maximum of 60 days wages. Monetary compensation for accumulated unused vacation and/or sick leave is the hourly rate of compensation of the employee at the time of separation.

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered or to rights that vest or accumulate, and when payment of the obligation is probable and can be reasonably determined. For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected. In the government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the enterprise funds when earned and the related liability reported within the funds.



## **CITY OF WAUSEON, OHIO**

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

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

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

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

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

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

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

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

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

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

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

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

## **CITY OF WAUSEON, OHIO**

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

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

##### **P. Fund Balances** (Continued)

*Committed* – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority. For the City, these constraints consist of ordinances passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts.

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

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

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

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

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

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

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

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. For the City, deferred outflows of resources are reported for pension amounts on the government-wide and proprietary funds statement of net position. See Note 9.

## **CITY OF WAUSEON, OHIO**

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

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

##### **S. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position. See Note 9.

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

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

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

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

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

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

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

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

**CITY OF WAUSEON, OHIO**

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

**NOTE 3 – FUND BALANCE CLASSIFICATION**

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

Fund Balances	General Fund	Income Tax Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Loans Receivable	\$0	\$0	\$47,998	\$47,998
Prepaid Items	67,531	0	0	67,531
Supplies Inventory	30,777	0	16,001	46,778
Total Nonspendable	<u>98,308</u>	<u>0</u>	<u>63,999</u>	<u>162,307</u>
Restricted:				
Street Improvements	0	0	888,019	888,019
Parks and Recreation	0	0	27,087	27,087
Drug and Alcohol Treatment and Education	0	0	51,369	51,369
Community Development and Improvement	0	0	482,498	482,498
Capital Improvements	0	222,700	0	222,700
Total Restricted	<u>0</u>	<u>222,700</u>	<u>1,448,973</u>	<u>1,671,673</u>
Committed:				
Capital Improvements	0	2,371,588	0	2,371,588
Assigned:				
2018 Budget Deficit	567,619	0	0	567,619
Services and Supplies	21,666	0	0	21,666
Total Assigned	<u>589,285</u>	<u>0</u>	<u>0</u>	<u>589,285</u>
Unassigned:				
	<u>322,786</u>	<u>0</u>	<u>0</u>	<u>322,786</u>
Total Fund Balances	<u><u>\$1,010,379</u></u>	<u><u>\$2,594,288</u></u>	<u><u>\$1,512,972</u></u>	<u><u>\$5,117,639</u></u>

## ***CITY OF WAUSEON, OHIO***

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

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#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

The City maintains a cash and investments pool used by all funds except the Water Operating, Water Service Deposits, Wastewater Operating, Wastewater Debt Reserve, and the Revolving Loan Funds. Each fund type's portion of this pool is displayed on the Balance Sheet as "Cash and Cash Equivalents." The deposits and investments of the aforementioned funds are held separately from those of other City funds. Ohio law requires the classification of funds held by the City into three categories.

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

## ***CITY OF WAUSEON, OHIO***

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

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#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

#### **A. Deposits**

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

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

At year end the carrying amount of the City's deposits was \$7,302,463 and the bank balance was \$7,436,280. Federal depository insurance covered \$7,203,783 of the bank balance and \$232,497 was exposed to custodial risk and was collateralized with securities held by the pledging financial institutions trust department or agent but not in the City's name, securities held in the Ohio Pooled Collateral System, and specific pledged collateral.

The City had restricted cash in the amount of \$482,498, which was related to the Community Development Block Grant Economic Development Revolving Loan Fund. In addition, the City had cash with fiscal agent in the amount of \$15,099, which was related to permissive tax monies held and secured by Fulton County. The City had petty cash in the amount of \$650.

## CITY OF WAUSEON, OHIO

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

#### NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

##### **B. Investments**

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

	Fair Value	Credit Rating	Fair Value Hierarchy	Concentration of Credit Risk	Investment Maturities (in Years)		
					less than 1	1-3	3-5
Money Market <sup>4</sup>	\$14,237	AA+ <sup>1</sup> /Aaa <sup>2</sup>	NA	0.67%	\$14,237	\$0	\$0
Marketable CD's	944,028	AAA <sup>3</sup>	Level 2	44.26%	427,644	516,384	0
FHLB	168,517	AA+ <sup>1</sup> /Aaa <sup>2</sup>	Level 2	7.90%	0	168,517	0
FHLMC	347,408	AA+ <sup>1</sup> /Aaa <sup>2</sup>	Level 2	16.29%	184,654	162,754	0
FFCB	168,945	AA+ <sup>1</sup> /Aaa <sup>2</sup>	Level 2	7.92%	0	168,945	0
FNMA	489,834	AAA <sup>1</sup> /Aaa <sup>2</sup>	Level 2	22.96%	239,886	0	249,948
<b>Total Investments</b>	<b>\$2,132,969</b>			<b>100.00%</b>	<b>\$866,421</b>	<b>\$1,016,600</b>	<b>\$249,948</b>

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

<sup>2</sup> Moody's Investor Service

<sup>3</sup> All are fully FDIC insured and therefore have an implied AAA credit rating

<sup>4</sup> Reported at amortized cost

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

*Concentration of Credit Risk* – The City places no limit on the amount the City may invest in one issuer. Investment distribution is detailed in the table above.

*Custodial Credit Risk* – The City's balance of investments are held by the trust department of its banking institution in the City's name.

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

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the financial statements and the classifications per items A and B of this note are as follows:

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$6,743,212	\$2,707,969
Cash with Fiscal Agent	(15,099)	
Petty Cash	(650)	
Investments:		
Certificates of Deposit	575,000	(575,000)
Per GASB Statement No. 3	<u>\$7,302,463</u>	<u>\$2,132,969</u>

## ***CITY OF WAUSEON, OHIO***

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

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#### **NOTE 5 - TAXES**

##### **A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2017 were levied after October 1, 2016 on assessed values as of January 1, 2016, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2014. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Wauseon. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2017 was \$4.80 per \$1,000 of assessed value. The assessed value upon which the 2017 levy was based was \$125,484,370. This amount constitutes \$118,046,010 in real property assessed value and \$7,438,360 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of one percent of assessed value without a vote of the people. Under current procedures, the City's share is .48% (4.80 mills) of assessed value.

##### ***Real Estate Tax Abatements***

The City provides tax incentives under one (1) program, the Community Reinvestment Area (CRA).

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment Area. The City authorizes incentives through passage of public ordinances, based upon each business investment criteria and through a contractual application process with each business. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to maintain and expand business located within the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate and includes major housing improvements in specified areas.



**CITY OF WAUSEON, OHIO**

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

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**NOTE 5 - TAXES (Continued)**

**A. Property Taxes (Continued)**

Currently, there are numerous businesses participating in this program.

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

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

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated For the year 2017</u>
<i>Community Reinvestment Area (CRA)</i>	
Manufacturing/Commercial	\$14,081
Residential	43
	<u>\$14,124</u>

**B. Income Tax**

The City levies a tax of one and one half percent on all salaries, wages, and other compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City. The tax also applies to the net income earned by business organizations on work conducted within the City of Wauseon. Income tax revenue is accounted for through the General and Income Tax Capital Improvement Funds.

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2017 consisted of taxes, accounts receivable, special assessments, interest, loans receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred inflows are considered collectible in full.

**CITY OF WAUSEON, OHIO**

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

**NOTE 7 - TRANSFERS**

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

Fund	Transfer In	Transfer Out
Income Tax Capital Improvement Fund	\$0	\$218,638
Other Governmental Funds	509,543	290,905
Totals	<u>\$509,543</u>	<u>\$509,543</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and to transfer capital assets.

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

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

***Historical Cost:***

Class	December 31, 2016	Additions	Deletions	December 31, 2017
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$1,504,579	\$0	\$0	\$1,504,579
Construction in Progress	0	1,214,013	0	1,214,013
Subtotal	<u>1,504,579</u>	<u>1,214,013</u>	<u>0</u>	<u>2,718,592</u>
<b><i>Capital assets being depreciated:</i></b>				
Buildings	3,643,626	88,783	(88,702)	3,643,707
Improvements Other than Buildings	3,651,037	58,160	(78,164)	3,631,033
Machinery and Equipment	4,535,502	355,749	(560,192)	4,331,059
Infrastructure	10,828,505	336,675	(1,400)	11,163,780
Subtotal	<u>22,658,670</u>	<u>839,367</u>	<u>(728,458)</u>	<u>22,769,579</u>
Total Cost	<u>\$24,163,249</u>	<u>\$2,053,380</u>	<u>(\$728,458)</u>	<u>\$25,488,171</u>

***Accumulated Depreciation:***

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Buildings	(\$2,411,078)	(\$89,822)	\$41,198	(\$2,459,702)
Improvements Other than Buildings	(1,191,864)	(110,206)	30,085	(1,271,985)
Machinery and Equipment	(2,468,742)	(302,575)	449,353	(2,321,964)
Infrastructure	(2,976,970)	(328,934)	1,260	(3,304,644)
Total Accumulated Depreciation	<u>(\$9,048,654)</u>	<u>(\$831,537) *</u>	<u>\$521,896</u>	<u>(\$9,358,295)</u>
<b><i>Net Value:</i></b>	<u>\$15,114,595</u>			<u>\$16,129,876</u>

**CITY OF WAUSEON, OHIO**

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

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

**A. Governmental Activities Capital Assets (Continued)**

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

Security of Persons and Property	\$133,833
Basic Utility Services	49,455
Leisure Time Activities	113,495
Transportation	453,698
General Government	81,056
Total Depreciation Expense	\$831,537

Under GASB Statement No. 34, the City is not required to retroactively report infrastructure assets. Only infrastructure capital assets acquired or constructed beginning in 2003 are reflected in the basic financial statements for the year ended December 31, 2017.

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

Summary by category of changes in business-type activities capital assets at December 31, 2017:

**Historical Cost:**

Class	December 31, 2016	Additions	Deletions	December 31, 2017
<b>Capital assets not being depreciated:</b>				
Land	\$103,710	\$0	\$0	\$103,710
Construction in Progress	0	186,000	0	186,000
Subtotal	103,710	186,000	0	289,710
<b>Capital assets being depreciated:</b>				
Buildings	8,578,770	7,820	(25,380)	8,561,210
Improvements other than Buildings	15,388,999	39,568	(33,727)	15,394,840
Machinery and Equipment	5,507,519	106,740	(112,194)	5,502,065
Subtotal	29,475,288	154,128	(171,301)	29,458,115
Total Cost	\$29,578,998	\$340,128	(\$171,301)	\$29,747,825

**Accumulated Depreciation:**

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Buildings	(\$4,790,069)	(\$205,080)	\$17,810	(\$4,977,339)
Improvements other than Buildings	(5,366,967)	(361,682)	15,499	(5,713,150)
Machinery and Equipment	(4,423,238)	(69,946)	88,282	(4,404,902)
Total Accumulated Depreciation	(\$14,580,274)	(\$636,708)	\$121,591	(\$15,095,391)
<b>Net Value:</b>	\$14,998,724			\$14,652,434

## **CITY OF WAUSEON, OHIO**

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

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#### **NOTE 9 – 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.

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

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

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

**CITY OF WAUSEON, OHIO**

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

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

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

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

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

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**CITY OF WAUSEON, OHIO**

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

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

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

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

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

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$240,645 for 2017.

## ***CITY OF WAUSEON, OHIO***

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

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

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

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

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

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

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

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

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

**CITY OF WAUSEON, OHIO**

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

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

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

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

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$268,120 for 2017.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF’s total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City’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:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,187,427	\$3,442,162	\$6,629,589
Proportion of the Net Pension Liability-2017	0.014036%	0.054345%	
Proportion of the Net Pension Liability-2016	<u>0.014871%</u>	<u>0.045984%</u>	
Percentage Change	<u>(0.000835%)</u>	<u>0.008361%</u>	
Pension Expense	\$641,988	\$597,589	\$1,239,577



**CITY OF WAUSEON, OHIO**

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

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

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

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$474,680	\$334,734	\$809,414
Changes in assumptions	505,565	0	505,565
Differences between expected and actual experience	4,321	974	5,295
Change in proportionate share	0	810,262	810,262
City contributions subsequent to the measurement date	<u>240,645</u>	<u>268,120</u>	<u>508,765</u>
Total Deferred Outflows of Resources	<u>\$1,225,211</u>	<u>\$1,414,090</u>	<u>\$2,639,301</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$18,969	\$7,926	\$26,895
Change in proportionate share	<u>70,846</u>	<u>45,912</u>	<u>116,758</u>
Total Deferred Inflows of Resources	<u>\$89,815</u>	<u>\$53,838</u>	<u>\$143,653</u>

\$508,765 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2018	\$364,321	\$293,587	\$657,908
2019	378,511	293,587	672,098
2020	165,831	263,253	429,084
2021	(13,912)	143,747	129,835
2022	0	90,637	90,637
2023	<u>0</u>	<u>7,321</u>	<u>7,321</u>
Total	<u>\$894,751</u>	<u>\$1,092,132</u>	<u>\$1,986,883</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.

## **CITY OF WAUSEON, OHIO**

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

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

In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments, decreasing the wage inflation from 3.75 percent to 3.25 percent and changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement in accordance with the requirements of GASB 67:

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

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

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

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016.

**CITY OF WAUSEON, OHIO**

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

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

Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

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

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

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

**Sensitivity of the 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 7.5 percent, 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$4,869,502	\$3,187,427	\$1,785,709

## **CITY OF WAUSEON, OHIO**

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

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

##### ***Actuarial Assumptions – OPF***

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

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

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

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

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

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

## CITY OF WAUSEON, OHIO

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

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

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

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

\* levered 2x

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

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

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

**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 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

**CITY OF WAUSEON, OHIO**

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

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

	1% Decrease <u>(7.25%)</u>	Current Discount Rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability	\$4,584,551	\$3,442,162	\$2,473,970

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

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

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

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

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS may be set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

## **CITY OF WAUSEON, OHIO**

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

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

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

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

The City's contributions for health care to the OPERS for the years ending December 31, 2017, 2016, and 2015 were \$18,511, \$36,290 and \$38,843, respectively, which were equal to the required contributions for each year.

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

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

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

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

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

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

**CITY OF WAUSEON, OHIO**

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

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

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

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

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

The City's contributions for health care to the OP&F for the years ending December 31, 2017, 2016, and 2015 were \$3,607, \$3,839 and \$3,342 for police and \$2,789, \$2,535 and \$1,336 for firefighters, respectively, which were equal to the required contributions for each year.

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**CITY OF WAUSEON, OHIO**

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

**NOTE 11 - LONG-TERM OBLIGATIONS**

Activity in Long-Term Obligations in 2017 was as follows:

Interest Rate	Purpose	Maturity Date	Balance December 31, 2016	Additions	Deductions	Balance December 31, 2017	Amount Due Within One Year
<b>Governmental Activities:</b>							
General Obligation Bonds:							
2.0-5.0%	Street Improvement	2029	\$2,200,000	\$0	(\$135,000)	\$2,065,000	\$140,000
1.85%	Pool Improvements	2020	1,130,000	0	(270,000)	860,000	280,000
Total General Obligation Bonds			3,330,000	0	(405,000)	2,925,000	420,000
Net Pension Liability:							
Ohio Public Employees Retirement System			1,564,461	344,438	0	1,908,899	0
Ohio Police and Fire Pension Fund			2,958,215	483,947	0	3,442,162	0
Total Net Pension Liability			4,522,676	828,385	0	5,351,061	0
Compensated Absences			343,739	80,823	(153,478)	271,084	135,636
Total Governmental Activities			8,196,415	909,208	(558,478)	8,547,145	555,636
<b>Business-Type Activities:</b>							
Ohio Water Development Authority Loans:							
3.34%	Wastewater Treatment Plant	2031	2,368,472	0	(129,374)	2,239,098	133,733
3.39%	Tedrow Water Supply Improvements	2024	133,646	0	(17,222)	116,424	17,811
Total Ohio Water Development Authority Loans			2,502,118	0	(146,596)	2,355,522	151,544
Long Term Note Payable:							
1.11%	Water Improvements	2017	1,137,000	0	(1,137,000)	0	0
1.44%	Water Improvements	2018	0	920,000	0	920,000	920,000
Net Pension Liability:			1,011,315	267,213	0	1,278,528	0
Compensated Absences			92,363	56,043	(43,227)	105,179	57,271
Total Business-Type Activities			4,742,796	1,243,256	(1,326,823)	4,659,229	1,128,815
Total Long-Term Obligations			\$12,939,211	\$2,152,464	(\$1,885,301)	\$13,206,374	\$1,684,451

## **CITY OF WAUSEON, OHIO**

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

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

The City issued \$3,000,000 of street improvement bonds on May 26, 2011. This bond issue includes serial and term bonds and matures in 2029.

The City issued \$1,400,000 of pool improvement bonds on February 19, 2016. These bonds have an interest rate of 1.85% and mature in 2020.

In 2002 the City entered into a loan agreement with OWDA on behalf of Fulton County for the Tedrow Waterline Project. Fulton County remits payment to the City in order to meet the loan debt obligation.

In 2010 the City entered into an agreement with the OWDA, as administrator for the U. S. Environmental Protection Agency (EPA), for the City to receive a loan for improvements to the City's wastewater treatment plant. The interest rate on the loan is 3.34%, per annum. This loan is payable from wastewater charges.

The Water Improvements Note Payable series 2017 will mature on August 15, 2018 and was issued in anticipation of the issuance of bonds for the purpose of improving the municipal waterworks system. The notes were used to retire the series 2016 notes payable, which matured on August 16, 2017.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

Years	<b>Governmental Activities</b>		<b>Business-Type Activities</b>			
	<b>General Obligation Bonds</b>		<b>Long Term Note</b>		<b>OWDA Loans</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2018	\$420,000	\$96,173	\$920,000	\$13,248	\$151,544	\$77,039
2019	430,000	87,318	0	0	156,655	71,998
2020	445,000	77,696	0	0	161,942	66,783
2021	155,000	66,238	0	0	167,405	61,395
2022	160,000	60,038	0	0	173,053	55,823
2023-2027	900,000	198,990	0	0	865,149	193,450
2028-2031	415,000	26,563	0	0	679,774	46,161
<b>Totals</b>	<b>\$2,925,000</b>	<b>\$613,016</b>	<b>\$920,000</b>	<b>\$13,248</b>	<b>\$2,355,522</b>	<b>\$572,649</b>

The City's total debt margin was \$10,250,859 at December 31, 2017. The Ohio Revised Code provides that the net debt of a municipal corporation, when 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 taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage.

# **CITY OF WAUSEON, OHIO**

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

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### **NOTE 12 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2017, the City participated in the Public Entities Pool of Ohio (PEP), established as a risk sharing self-insurance pool for the purpose of enabling the subscribing political subdivisions to obtain liability insurance and providing a formalized, jointly administered self-insurance program for its members. PEP is a corporation governed by a seven member board of directors, consisting of representatives elected by the 230 participating governments.

The City pays an annual premium to the PEP. The agreement provides that the PEP will be self-sustaining through member premiums and excess insurance. The types of coverages and deductibles per occurrence are as follows:

<u>Coverage</u>		
Real Property	\$27,303,910/1,000	per occurrence
Personal Property	\$8,040,704/1,000	per occurrence
Automobile/Equipment	\$2,709,756/500-1,000	per occurrence

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred.

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

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

### **NOTE 13 - CONTINGENCIES**

#### **A. Grants**

The City received financial assistance from State and Federal agencies in the form of grants. The expense 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2017.

#### **B. Litigation**

There are currently no matters in litigation with the City as defendant.

**CITY OF WAUSEON, OHIO**

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

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**NOTE 14 – RAW WATERLINE COST SHARING AGREEMENT**

The City of Wauseon and City of Napoleon, Henry County entered into an agreement for the construction and operation of a raw water supply line from the City of Napoleon to the City of Wauseon. The City of Wauseon paid for the construction of the raw water line. Per the agreement, the City of Napoleon contributed \$1,000,000 towards its share of the project in 2001. The balance of the City of Napoleon's commitment will be repaid through water credits to the City of Wauseon over a period of twenty five years.

**NOTE 15 - SIGNIFICANT COMMITMENTS**

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

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Public Swimming Pool	\$611,468	May 2018
Bio-Solids Handling Project	1,278,826	October 2018
	<u>\$1,890,294</u>	

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

<u>Fund</u>	<u>Encumbrances</u>
General Fund	\$23,507
Income Tax Capital Improvement Fund	849,054
Other Governmental Funds	<u>14,014</u>
Total Governmental Funds	<u>\$886,575</u>

*REQUIRED SUPPLEMENTAL INFORMATION*

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**CITY OF WAUSEON, OHIO**

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

**Ohio Public Employees Retirement System**

Year	2014	2015	2016	2017
City's proportion of the net pension liability (asset)	0.014942%	0.014942%	0.014871%	0.014036%
City's proportionate share of the net pension liability (asset)	\$1,761,466	\$1,802,173	\$2,575,776	\$3,187,427
City's covered-employee payroll	\$1,771,000	\$1,833,108	\$1,849,525	\$1,814,492
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	99.46%	98.31%	139.27%	175.67%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%	77.25%

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

**Ohio Police and Fire Pension Fund**

Year	2014	2015	2016	2017
City's proportion of the net pension liability (asset)	0.034306%	0.034306%	0.045984%	0.054345%
City's proportionate share of the net pension liability (asset)	\$1,670,815	\$1,777,200	\$2,958,215	\$3,442,162
City's covered-employee payroll	\$735,191	\$740,729	\$968,361	\$1,188,754
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	227.26%	239.93%	305.49%	289.56%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%	68.36%

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

Notes: The City implemented GASB Statement 68 in 2015.

The schedule is intended to show ten years of information. Additional years will be displayed as they become available. Information prior to 2014 is not available. The schedule is reported as of the measurement date of the Net Pension Liability, which is the prior year end.

## **CITY OF WAUSEON, OHIO**

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

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

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$230,230	\$219,973	\$221,943	\$217,739	\$240,645
Contributions in relation to the contractually required contribution	<u>230,230</u>	<u>219,973</u>	<u>221,943</u>	<u>217,739</u>	<u>240,645</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$1,771,000	\$1,833,108	\$1,849,525	\$1,814,492	\$1,851,115
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%

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

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

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$109,635	\$143,264	\$197,290	\$247,207	\$268,120
Contributions in relation to the contractually required contribution	<u>109,635</u>	<u>143,264</u>	<u>197,290</u>	<u>247,207</u>	<u>268,120</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$735,191	\$740,729	\$968,361	\$1,188,754	\$1,279,061
Contributions as a percentage of covered-employee payroll	14.91%	19.34%	20.37%	20.80%	20.96%

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

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Required Supplemental Information For the Year Ended December 31, 2017***

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#### **OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)**

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

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

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

#### **OHIO POLICE AND FIRE (OP&F) PENSION FUND**

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





# Dave Yost • Auditor of State

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

City of Wauseon  
Fulton County  
230 Clinton Street  
Wauseon, Ohio 43567-2104

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 2, 2018.

### ***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

Columbus, Ohio

October 2, 2018



# Dave Yost • Auditor of State

CITY OF WAUSEON

FULTON 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  
OCTOBER 23, 2018