



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF WAUSEON
FULTON COUNTY
DECEMBER 31, 2018**

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CITY OF WAUSEON
FULTON COUNTY
DECEMBER 31, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

November 12, 2019

CITY OF WAUSEON, OHIO

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

Unaudited

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, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the 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 2018 are as follows:

- ❑ In total, net position increased \$1,647. Net position of governmental activities decreased \$119,350, which represents a 1% change from 2017. Net position of business-type activities increased \$120,997 or approximately 1% from 2017.
- ❑ General revenues accounted for \$5,045,566 in revenue or 47% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,607,316, 53% of total revenues of \$10,652,882.
- ❑ The City had \$7,582,300 in expenses related to governmental activities; only \$2,488,321 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,974,629 were not adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$4,910,073 in revenues and \$5,305,561 in expenditures. The general fund's fund balance decreased from \$1,010,379 to \$617,554.

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

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

Unaudited

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, 2018

Unaudited

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net position for 2018 compared to 2017.

	Governmental Activities		Business-type Activities		Total	
	2018	Restated	2018	Restated	2018	2017
		2017		2017		
Current and Other Assets	\$6,658,623	\$7,304,041	\$4,969,994	\$5,627,657	\$11,628,617	\$12,931,698
Capital Assets, Net	17,083,660	16,129,876	15,541,154	14,652,434	32,624,814	30,782,310
Total Assets	23,742,283	23,433,917	20,511,148	20,280,091	44,253,431	43,714,008
Deferred Outflows of Resources	2,214,972	2,165,331	258,837	498,877	2,473,809	2,664,208
Net Pension Liability	4,879,718	5,351,061	877,800	1,278,528	5,757,518	6,629,589
Net OPEB Liability	4,199,582	3,424,000	607,364	561,621	4,806,946	3,985,621
Long-term Liabilities	2,830,574	3,196,084	3,030,490	3,380,701	5,861,064	6,576,785
Other Liabilities	250,078	187,832	436,098	91,849	686,176	279,681
Total Liabilities	12,159,952	12,158,977	4,951,752	5,312,699	17,111,704	17,471,676
Deferred Inflows of Resources	1,167,420	691,038	266,992	36,025	1,434,412	727,063
Net Position						
Net Investment in Capital Assets	14,578,660	13,427,576	12,315,926	11,376,912	26,894,586	24,804,488
Restricted	2,767,619	2,690,762	0	0	2,767,619	2,690,762
Unrestricted (Deficit)	(4,716,396)	(3,369,105)	3,235,315	4,053,332	(1,481,081)	684,227
Total Net Position	\$12,629,883	\$12,749,233	\$15,551,241	\$15,430,244	\$28,181,124	\$28,179,477

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

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

CITY OF WAUSEON, OHIO

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

Unaudited

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

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

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

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

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

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows. As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017 from \$16,155,751 to \$12,749,233 for Governmental Activities and from \$15,984,440 to \$15,430,244 for Business-type Activities.

CITY OF WAUSEON, OHIO

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

Unaudited

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for Services and Sales	\$1,314,631	\$1,168,821	\$3,118,995	\$3,117,854	\$4,433,626	\$4,286,675
Operating Grants and Contributions	510,002	516,021	0	0	510,002	516,021
Capital Grants and Contributions	663,688	49,762	0	0	663,688	49,762
Total Program Revenues	2,488,321	1,734,604	3,118,995	3,117,854	5,607,316	4,852,458
General revenues:						
Property Taxes	546,412	518,369	0	0	546,412	518,369
Income Taxes	4,058,441	4,161,137	0	0	4,058,441	4,161,137
Intergovernmental Revenues, Unrestricted	173,017	182,339	0	0	173,017	182,339
Investment Earnings	59,641	48,624	70,937	35,822	130,578	84,446
Miscellaneous	137,118	102,890	0	0	137,118	102,890
Total General Revenues	4,974,629	5,013,359	70,937	35,822	5,045,566	5,049,181
Total Revenues	7,462,950	6,747,963	3,189,932	3,153,676	10,652,882	9,901,639
Program Expenses						
Security of Persons and Property	4,280,914	3,579,371	0	0	4,280,914	3,579,371
Basic Utility Services	79,722	72,987	0	0	79,722	72,987
Leisure Time Activities	844,601	677,428	0	0	844,601	677,428
Community Environment	140,115	243,754	0	0	140,115	243,754
Transportation	1,158,529	1,060,286	0	0	1,158,529	1,060,286
General Government	982,959	1,026,982	0	0	982,959	1,026,982
Interest and Fiscal Charges	95,460	103,868	0	0	95,460	103,868
Water	0	0	1,722,362	1,546,462	1,722,362	1,546,462
Wastewater	0	0	1,346,573	1,477,525	1,346,573	1,477,525
Total Expenses	7,582,300	6,764,676	3,068,935	3,023,987	10,651,235	9,788,663
Total Change in Net Position	(119,350)	(16,713)	120,997	129,689	1,647	112,976
Beginning Net Position - Restated	12,749,233	N/A	15,430,244	N/A	28,179,477	N/A
Ending Net Position - Restated	\$12,629,883	\$12,749,233	\$15,551,241	\$15,430,244	\$28,181,124	\$28,179,477

Governmental Activities

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$17,482 for Governmental Activities and \$7,425 for Business-type Activities computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$356,514 for Governmental Activities and \$51,487 for Business-type Activities.

CITY OF WAUSEON, OHIO

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

Unaudited

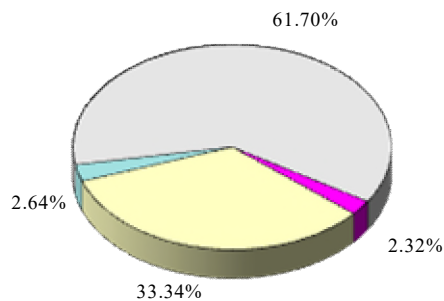
The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City.

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

	Governmental Activities	Business-type Activities
Total 2018 program expenses under GASB 75	\$7,582,300	\$3,068,935
OPEB expense under GASB 75	(356,514)	(51,487)
2018 contractually required contribution	7,371	0
Adjusted 2018 program expenses	7,233,157	3,017,448
Total 2017 program expenses under GASB 45	6,764,676	3,023,987
Change in program expenses not related to OPEB	\$468,481	(\$6,539)

Income taxes and property taxes made up 54% and 7% respectively of revenues for governmental activities in 2018. The City's reliance upon tax revenues is demonstrated by the following graph indicating 62% of total revenues from general tax revenues:

Revenue Sources	2018	Percent of Total
General Tax Revenues	\$4,604,853	61.70%
Intergovernmental, Unrestricted	173,017	2.32%
Program Revenues	2,488,321	33.34%
General Other	196,759	2.64%
Total Revenue	\$7,462,950	100.00%



Business-Type Activities

Net position of business-type activities increased \$120,997. 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 \$4,409,656, which is a decrease from last year's balance of \$5,117,639. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2018 and 2017:

	Fund Balance December 31, 2018	Fund Balance December 31, 2017	Increase (Decrease)
General	\$617,554	\$1,010,379	(\$392,825)
Income Tax Capital Improvement	2,233,327	2,594,288	(360,961)
Other Governmental	1,558,775	1,512,972	45,803
Total	\$4,409,656	\$5,117,639	(\$707,983)

CITY OF WAUSEON, OHIO

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

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:

	2018	2017	Increase
	Revenues	Revenues	(Decrease)
Taxes	\$3,298,639	\$3,354,287	(\$55,648)
Intergovernmental Revenue	248,628	265,723	(17,095)
Charges for Services	1,072,428	922,366	150,062
Licenses and Permits	83,736	72,706	11,030
Investment Earnings	58,052	14,541	43,511
Fines and Forfeitures	20,425	19,143	1,282
All Other Revenue	128,165	93,125	35,040
Total	\$4,910,073	\$4,741,891	\$168,182

General Fund revenues increased approximately 4% when compared to revenues in 2017, which can mostly be attributed to an increase in charges for services. Increased demand for inter-hospital transportation for patients and receipts from swimming pool operations were the primary factors contributing to an increase in charges for services.

	2018	2017	Increase
	Expenditures	Expenditures	(Decrease)
Security of Persons and Property	\$3,436,566	\$3,075,951	\$360,615
Basic Utility Services	28,506	21,231	7,275
Leisure Time Activities	631,334	509,075	122,259
Community Environment	71,948	84,933	(12,985)
Transportation	337,596	290,865	46,731
General Government	796,433	715,015	81,418
Capital Outlay	3,178	1,230	1,948
Total	\$5,305,561	\$4,698,300	\$607,261

General Fund expenditures increased \$607,261, or 13% 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. An increase in leisure time activities can be attributed to costs associated with the new swimming pool.

CITY OF WAUSEON, OHIO

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

Unaudited

Income Tax Capital Improvement Fund – The Income Tax Capital Improvement fund balance decreased approximately 14%. Significant capital outlays during the year were for pool construction, police and fire equipment, and street resurfacing.

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 2018 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. Final budgeted expenditures were 7% less than the original budget, due to revisions in budgeted expenditures for parks and the swimming pool. Actual budget basis expenditures of \$5.2 million were 3% less than final budget estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018 the City had \$32,624,814 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, equipment and vehicles. Of this total, \$17,083,660 was related to governmental activities and \$15,541,154 to the business-type activities. The following tables show 2018 and 2017 balances:

	Governmental Activities		Increase (Decrease)
	2018	2017	
Land	\$1,667,379	\$1,504,579	\$162,800
Construction In Progress	0	1,214,013	(1,214,013)
Buildings	6,101,558	3,643,707	2,457,851
Improvements Other than Buildings	3,685,537	3,631,033	54,504
Machinery and Equipment	4,675,867	4,331,059	344,808
Infrastructure	11,207,194	11,163,780	43,414
Less: Accumulated Depreciation	(10,253,875)	(9,358,295)	(895,580)
Totals	<u>\$17,083,660</u>	<u>\$16,129,876</u>	<u>\$953,784</u>

Significant capital asset additions included equipment purchases in the police, fire, and street departments. In 2018, the City completed construction of a new community pool facility. In addition, the Ohio Department of Transportation donated a garage and land to the City in 2018.

CITY OF WAUSEON, OHIO

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

Unaudited

	Business-Type Activities		Increase (Decrease)
	2018	2017	
Land	\$103,710	\$103,710	\$0
Construction in Progress	0	186,000	(186,000)
Buildings	9,414,163	8,561,210	852,953
Improvements other than Buildings	15,394,840	15,394,840	0
Machinery and Equipment	6,430,734	5,502,065	928,669
Less: Accumulated Depreciation	(15,802,293)	(15,095,391)	(706,902)
Totals	\$15,541,154	\$14,652,434	\$888,720

Business-type additions to capital assets included machinery and equipment purchases in both the water and wastewater departments. Building additions consisted of a wastewater bio-solids processing project as well as water tower improvements.

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, 2018 and 2017:

	2018	Restated 2017
Governmental Activities:		
General Obligation Bonds	\$2,505,000	\$2,925,000
Net Pension Liability	4,879,718	5,351,061
Net OPEB Liability	4,199,582	3,424,000
Compensated Absences	325,574	271,084
Total Governmental Activities	11,909,874	11,971,145
Business-Type Activities:		
Ohio Water Development Authority Loans	2,203,978	2,355,522
Long Term Note Payable	700,000	920,000
Net Pension Liability	877,800	1,278,528
Net OPEB Liability	607,364	561,621
Compensated Absences	126,512	105,179
Total Business-Type Activities	4,515,654	5,220,850
Totals	\$16,425,528	\$17,191,995

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, 2018, 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

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

Unaudited

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 2018 decreased approximately 2.81% compared to 2017.

The City was experiencing economic stability until a local auto manufacturer lost a large contract. The decrease experienced in 2018 was due to a decrease in income tax withholding from this specific manufacturer. The City continues to use conservative budgeting to off-set this decrease and 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.

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CITY OF WAUSEON, OHIO

Statement of Net Position
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 1,639,122	\$ 3,372,412	\$ 5,011,534
Cash and Cash Equivalents in Segregated Accounts	2,059	0	2,059
Investments	1,791,039	944,939	2,735,978
Receivables:			
Taxes	1,055,827	0	1,055,827
Accounts	133,946	371,402	505,348
Intergovernmental	307,098	0	307,098
Interest	10,548	0	10,548
Special Assessments	1,075,591	0	1,075,591
Loans	255,978	98,613	354,591
Inventory of Supplies at Cost	52,166	153,863	206,029
Prepaid Items	47,627	28,765	76,392
Restricted Assets:			
Cash and Cash Equivalents	236,032	0	236,032
Cash and Cash Equivalents with Fiscal Agent	51,590	0	51,590
Non-Depreciable Capital Assets	1,667,379	103,710	1,771,089
Depreciable Capital Assets, Net	15,416,281	15,437,444	30,853,725
Total Assets	23,742,283	20,511,148	44,253,431
Deferred Outflows of Resources:			
Pension	1,656,970	211,912	1,868,882
OPEB	558,002	46,925	604,927
Total Deferred Outflows of Resources	2,214,972	258,837	2,473,809
Liabilities:			
Accounts Payable	133,192	400,362	533,554
Accrued Wages and Benefits	93,531	23,537	117,068
Intergovernmental Payable	16,321	4,927	21,248
Accrued Interest Payable	7,034	7,272	14,306
Noncurrent Liabilities:			
Due Within One Year	595,908	920,700	1,516,608
Due in More Than One Year:			
Net Pension Liability	4,879,718	877,800	5,757,518
Net OPEB Liability	4,199,582	607,364	4,806,946
Other Amounts Due in More Than One Year	2,234,666	2,109,790	4,344,456
Total Liabilities	12,159,952	4,951,752	17,111,704
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	546,440	0	546,440
Pension	506,899	221,748	728,647
OPEB	114,081	45,244	159,325
Total Deferred Inflows of Resources	1,167,420	266,992	1,434,412

CITY OF WAUSEON, OHIO

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position:			
Net Investment in Capital Assets	14,578,660	12,315,926	26,894,586
Restricted For:			
Capital Projects	1,074,687	0	1,074,687
Other Purposes	1,692,932	0	1,692,932
Unrestricted (Deficit)	(4,716,396)	3,235,315	(1,481,081)
Total Net Position	<u>\$ 12,629,883</u>	<u>\$ 15,551,241</u>	<u>\$ 28,181,124</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Statement of Activities
For the Year Ended December 31, 2018

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 4,280,914	\$ 1,128,602	\$ 115,073	\$ 15,488
Basic Utility Services	79,722	4,280	0	0
Leisure Time Activities	844,601	72,550	0	0
Community Environment	140,115	2,295	0	0
Transportation	1,158,529	0	394,929	0
General Government	982,959	106,904	0	648,200
Interest and Fiscal Charges	95,460	0	0	0
Total Governmental Activities	7,582,300	1,314,631	510,002	663,688
Business-Type Activities:				
Water	1,722,362	1,641,121	0	0
Wastewater	1,346,573	1,477,874	0	0
Total Business-Type Activities	3,068,935	3,118,995	0	0
Totals	\$ 10,651,235	\$ 4,433,626	\$ 510,002	\$ 663,688

General Revenues

Property Taxes Levied for:

General Purposes

Parks and Recreation

Income Taxes

Intergovernmental Revenues, Unrestricted

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year - Restated

Net Position End of Year

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (3,021,751)	\$ 0	\$ (3,021,751)
(75,442)	0	(75,442)
(772,051)	0	(772,051)
(137,820)	0	(137,820)
(763,600)	0	(763,600)
(227,855)	0	(227,855)
(95,460)	0	(95,460)
<u>(5,093,979)</u>	<u>0</u>	<u>(5,093,979)</u>
0	(81,241)	(81,241)
0	131,301	131,301
<u>0</u>	<u>50,060</u>	<u>50,060</u>
<u>\$ (5,093,979)</u>	<u>\$ 50,060</u>	<u>\$ (5,043,919)</u>
246,839	0	246,839
299,573	0	299,573
4,058,441	0	4,058,441
173,017	0	173,017
59,641	70,937	130,578
137,118	0	137,118
<u>4,974,629</u>	<u>70,937</u>	<u>5,045,566</u>
(119,350)	120,997	1,647
12,749,233	15,430,244	28,179,477
<u>\$ 12,629,883</u>	<u>\$ 15,551,241</u>	<u>\$ 28,181,124</u>

CITY OF WAUSEON, OHIO

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

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 141,797	\$ 1,013,528	\$ 483,797	\$ 1,639,122
Cash and Cash Equivalents in Segregated Accounts	0	0	2,059	2,059
Investments	158,564	1,128,035	504,440	1,791,039
Receivables:				
Taxes	628,347	125,707	301,773	1,055,827
Accounts	133,946	0	0	133,946
Intergovernmental	88,187	37,877	181,034	307,098
Interest	10,548	0	0	10,548
Special Assessments	904	1,074,687	0	1,075,591
Loans	0	0	255,978	255,978
Inventory of Supplies, at Cost	30,084	0	22,082	52,166
Prepaid Items	47,627	0	0	47,627
Restricted Assets:				
Cash and Cash Equivalents	0	0	236,032	236,032
Cash and Cash Equivalents with Fiscal Agent	0	0	51,590	51,590
Total Assets	\$ 1,240,004	\$ 3,379,834	\$ 2,038,785	\$ 6,658,623
Liabilities:				
Accounts Payable	\$ 78,909	\$ 53,482	\$ 801	\$ 133,192
Accrued Wages and Benefits Payable	89,248	0	4,283	93,531
Intergovernmental Payable	16,321	0	0	16,321
Total Liabilities	184,478	53,482	5,084	243,044
Deferred Inflows of Resources:				
Unavailable Amounts	189,861	1,093,025	176,597	1,459,483
Property Tax Levy for Next Fiscal Year	248,111	0	298,329	546,440
Total Deferred Inflows of Resources	437,972	1,093,025	474,926	2,005,923
Fund Balance:				
Nonspendable	77,711	0	278,060	355,771
Restricted	0	0	1,280,715	1,280,715
Committed	0	2,233,327	0	2,233,327
Assigned	302,909	0	0	302,909
Unassigned	236,934	0	0	236,934
Total Fund Balance	617,554	2,233,327	1,558,775	4,409,656
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,240,004	\$ 3,379,834	\$ 2,038,785	\$ 6,658,623

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

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

Total Governmental Fund Balances \$ 4,409,656

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 17,083,660

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 1,459,483

The net pension/OPEB liability is not due and payable in the current period;
therefore, the liability and related deferred inflows/outflows are not
reported in governmental funds:

Deferred Outflows - Pension	1,656,970	
Deferred Inflows - Pension	(506,899)	
Net Pension Liability	(4,879,718)	
Deferred Outflows - OPEB	558,002	
Deferred Inflows - OPEB	(114,081)	
Net OPEB Liability	<u>(4,199,582)</u>	(7,485,308)

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	(2,505,000)	
Compensated Absences Payable	(325,574)	
Accrued Interest Payable	<u>(7,034)</u>	<u>(2,837,608)</u>

Net Position of Governmental Activities \$ 12,629,883

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, 2018**

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,298,639	\$ 1,017,414	\$ 299,238	\$ 4,615,291
Intergovernmental Revenue	248,628	53,365	366,828	668,821
Charges for Services	1,072,428	46,126	0	1,118,554
Licenses and Permits	83,736	0	0	83,736
Investment Earnings	58,052	(1,359)	2,948	59,641
Fines and Forfeitures	20,425	0	73,391	93,816
All Other Revenue	128,165	5,422	3,531	137,118
Total Revenue	4,910,073	1,120,968	745,936	6,776,977
Expenditures:				
Current:				
Security of Persons and Property	3,436,566	0	37,238	3,473,804
Basic Utility Services	28,506	0	0	28,506
Leisure Time Activities	631,334	0	6,055	637,389
Community Environment	71,948	17,873	41,434	131,255
Transportation	337,596	0	325,577	663,173
General Government	796,433	0	0	796,433
Capital Outlay	3,178	1,254,178	0	1,257,356
Debt Service:				
Principal Retirement	0	0	420,000	420,000
Interest & Fiscal Charges	0	0	96,173	96,173
Total Expenditures	5,305,561	1,272,051	926,477	7,504,089
Excess (Deficiency) of Revenues Over (Under) Expenditures	(395,488)	(151,083)	(180,541)	(727,112)
Other Financing Sources (Uses):				
Sale of Assets	3,356	10,385	0	13,741
Transfers In	0	0	516,173	516,173
Transfers Out	0	(220,263)	(295,910)	(516,173)
Total Other Financing Sources (Uses)	3,356	(209,878)	220,263	13,741
Net Change in Fund Balance	(392,132)	(360,961)	39,722	(713,371)
Fund Balance at Beginning of Year	1,010,379	2,594,288	1,512,972	5,117,639
Increase (Decrease) in Inventory	(693)	0	6,081	5,388
Fund Balance End of Year	\$ 617,554	\$ 2,233,327	\$ 1,558,775	\$ 4,409,656

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

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

Net Change in Fund Balances - Total Governmental Funds \$ (713,371)

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

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

Capital Outlay	1,238,930	
Depreciation Expense	(920,031)	318,899

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

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		648,200
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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.		(13,315)
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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.		37,773
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	470,785	
OPEB	7,371	478,156

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

Pension	(889,592)	
OPEB	(356,514)	(1,246,106)

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	420,000	
Accrued Interest Payable	713	420,713

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	(55,687)	
Change in Inventory	5,388	(50,299)

<i>Change in Net Position of Governmental Activities</i>		<u><u>\$ (119,350)</u></u>
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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, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 3,612,460	\$ 3,333,851	\$ 3,365,830	\$ 31,979
Intergovernmental Revenue	230,400	222,797	222,176	(621)
Charges for Services	1,048,471	1,037,564	1,041,340	3,776
Licenses and Permits	5,000	1,990	2,470	480
Investment Earnings	60,000	49,378	50,182	804
Fines and Forfeitures	16,700	20,992	20,867	(125)
All Other Revenues	216,000	222,428	221,728	(700)
Total Revenues	5,189,031	4,889,000	4,924,593	35,593
Expenditures:				
Current:				
Security of Persons and Property	3,440,213	3,468,363	3,430,642	37,721
Basic Utility Services	64,000	33,000	28,506	4,494
Leisure Time Activities	914,039	667,339	628,235	39,104
Community Environment	120,270	91,270	71,906	19,364
Transportation	477,000	348,050	326,381	21,669
General Government	757,635	775,310	749,281	26,029
Capital Outlay	7,000	7,000	3,178	3,822
Total Expenditures	5,780,157	5,390,332	5,238,129	152,203
Net Change in Fund Balance	(591,126)	(501,332)	(313,536)	187,796
Fund Balance at Beginning of Year	569,179	569,179	569,179	0
Prior Year Encumbrances	23,507	23,507	23,507	0
Fund Balance at End of Year	\$ 1,560	\$ 91,354	\$ 279,150	\$ 187,796

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

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

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$ 1,383,287	\$ 1,989,125	\$ 3,372,412
Investments	0	944,939	944,939
Receivables:			
Accounts	186,356	185,046	371,402
Loans	98,613	0	98,613
Inventory of Supplies at Cost	138,438	15,425	153,863
Prepaid Items	10,299	18,466	28,765
Total Current Assets	<u>1,816,993</u>	<u>3,153,001</u>	<u>4,969,994</u>
Noncurrent Assets:			
Capital Assets, Net	<u>7,217,093</u>	<u>8,324,061</u>	<u>15,541,154</u>
Total Assets	<u>9,034,086</u>	<u>11,477,062</u>	<u>20,511,148</u>
Deferred Outflows of Resources:			
Pension	124,391	87,521	211,912
OPEB	27,544	19,381	46,925
Total Deferred Outflows of Resources	<u>151,935</u>	<u>106,902</u>	<u>258,837</u>
Liabilities:			
Current Liabilities:			
Accounts Payable	47,871	352,491	400,362
Accrued Wages and Benefits	11,514	12,023	23,537
Intergovernmental Payable	3,902	1,025	4,927
Compensated Absences Payable - Current	25,658	38,386	64,044
Accrued Interest Payable	7,272	0	7,272
General Obligation Notes Payable	700,000	0	700,000
OWDA Loans Payable - Current	18,420	138,236	156,656
Total Current Liabilities	<u>814,637</u>	<u>542,161</u>	<u>1,356,798</u>
Noncurrent Liabilities:			
OWDA Loans Payable	80,193	1,967,129	2,047,322
Compensated Absences Payable	24,772	37,696	62,468
Net Pension Liability	515,263	362,537	877,800
Net OPEB Liability	<u>356,517</u>	<u>250,847</u>	<u>607,364</u>
Total Noncurrent Liabilities	<u>976,745</u>	<u>2,618,209</u>	<u>3,594,954</u>
Total Liabilities	<u>1,791,382</u>	<u>3,160,370</u>	<u>4,951,752</u>
Deferred Inflows of Resources:			
Pension	129,366	92,382	221,748
OPEB	<u>26,558</u>	<u>18,686</u>	<u>45,244</u>
Total Deferred Inflows of Resources	<u>155,924</u>	<u>111,068</u>	<u>266,992</u>
Net Position:			
Net Investment in Capital Assets	6,418,480	5,897,446	12,315,926
Unrestricted	<u>820,235</u>	<u>2,415,080</u>	<u>3,235,315</u>
Total Net Position	<u>\$ 7,238,715</u>	<u>\$ 8,312,526</u>	<u>\$ 15,551,241</u>

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, 2018**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
Operating Revenues:			
Charges for Services	\$ 1,589,945	\$ 1,465,076	\$ 3,055,021
Total Operating Revenues	<u>1,589,945</u>	<u>1,465,076</u>	<u>3,055,021</u>
Operating Expenses:			
Personal Services	797,375	577,844	1,375,219
Contractual Services	191,161	74,036	265,197
Materials and Supplies	373,730	91,475	465,205
Depreciation	269,713	513,789	783,502
Total Operating Expenses	<u>1,631,979</u>	<u>1,257,144</u>	<u>2,889,123</u>
Operating Income (Loss)	(42,034)	207,932	165,898
Non-Operating Revenues (Expenses):			
Interest Income	22,252	48,685	70,937
Interest and Fiscal Charges	(18,912)	(73,677)	(92,589)
Loss on Disposal of Capital Assets	(6,947)	(1,564)	(8,511)
Other Nonoperating Revenue	51,176	12,798	63,974
Other Nonoperating Expense	(64,524)	(14,188)	(78,712)
Total Non-Operating Revenues (Expenses)	<u>(16,955)</u>	<u>(27,946)</u>	<u>(44,901)</u>
Change in Net Position	(58,989)	179,986	120,997
Net Position Beginning of Year - Restated	<u>7,297,704</u>	<u>8,132,540</u>	<u>15,430,244</u>
Net Position End of Year	<u>\$ 7,238,715</u>	<u>\$ 8,312,526</u>	<u>\$ 15,551,241</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, 2018

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,662,310	\$1,474,184	\$3,136,494
Cash Payments for Goods and Services	(576,641)	(182,678)	(759,319)
Cash Payments to Employees	(696,712)	(539,715)	(1,236,427)
Net Cash Provided by Operating Activities	388,957	751,791	1,140,748
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(424,233)	(936,683)	(1,360,916)
Notes Issued	700,000	0	700,000
Note Retirement	(920,000)	0	(920,000)
OWDA Loan Retirement	(17,811)	(133,733)	(151,544)
Interest Paid on All Debt	(16,608)	(73,677)	(90,285)
Net Cash Used by Capital and Related Financing Activities	(678,652)	(1,144,093)	(1,822,745)
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	0	(946,252)	(946,252)
Sale of Investments	0	936,976	936,976
Receipts of Interest	22,252	47,004	69,256
Net Cash Provided by Investing Activities	22,252	37,728	59,980
Net Decrease in Cash and Cash Equivalents	(267,443)	(354,574)	(622,017)
Cash and Cash Equivalents at Beginning of Year	1,650,730	2,343,699	3,994,429
Cash and Cash Equivalents at End of Year	\$1,383,287	\$1,989,125	\$3,372,412

(Continued)

CITY OF WAUSEON, OHIO

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income (Loss)	(\$42,034)	\$207,932	\$165,898
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	269,713	513,789	783,502
Miscellaneous Nonoperating Revenue	69,835	12,798	82,633
Miscellaneous Nonoperating Expense	(60,622)	(13,596)	(74,218)
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:			
(Increase) Decrease in Accounts Receivable	2,530	(3,690)	(1,160)
(Increase) Decrease in Inventory	39,168	(2,948)	36,220
Increase in Prepaid Items	(5,683)	(1,433)	(7,116)
Decrease in Deferred Outflows of Resources	114,024	126,016	240,040
Increase (Decrease) in Accounts Payable	11,485	(215)	11,270
Increase (Decrease) in Accrued Wages and Benefits	(1,953)	3,390	1,437
Increase in Intergovernmental Payable	3,902	1,025	4,927
Increase (Decrease) in Compensated Absences	(8,635)	29,968	21,333
Decrease in Net Pension Liability	(166,342)	(234,386)	(400,728)
Increase in Net OPEB Liability	26,850	18,893	45,743
Increase in Deferred Inflows of Resources	136,719	94,248	230,967
Total Adjustments	430,991	543,859	974,850
Net Cash Provided by Operating Activities	<u>\$388,957</u>	<u>\$751,791</u>	<u>\$1,140,748</u>

See accompanying notes to the basic financial statements

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CITY OF WAUSEON, OHIO

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

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, 2018 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 2018.

CITY OF WAUSEON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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, 2018 but which are not intended to finance 2018 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 5.

CITY OF WAUSEON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The 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, department, and object 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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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 2018.

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 fund, department, and object 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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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:

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	(\$392,132)
Increase (Decrease):	
Accrued Revenues at December 31, 2018 received during 2019	(423,960)
Accrued Revenues at December 31, 2017 received during 2018	435,124
Accrued Expenditures at December 31, 2018 paid during 2019	184,478
Accrued Expenditures at December 31, 2017 paid during 2018	(115,739)
2017 Prepays for 2018	67,531
2018 Prepays for 2019	(47,627)
Outstanding Encumbrances	(21,211)
Budget Basis	<u>(\$313,536)</u>

CITY OF WAUSEON, OHIO

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

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. Interest revenue credited to the general fund during 2018 amounted to \$58,052, which includes \$53,058 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, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF WAUSEON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

Capital assets are defined by the 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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loans	Water Fund, Wastewater Fund
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

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

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. Pension/OPEB

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

O. Interfund Activity

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

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

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 2018.

S. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. For the City, deferred outflows of resources are reported for pension/OPEB amounts on the government-wide and proprietary funds statement of net position. See Notes 9 and 10.

CITY OF WAUSEON, OHIO

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

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/OPEB are reported on the government-wide and proprietary funds statement of net position. See Notes 9 and 10.

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

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

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

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

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

The implementation of GASB Statement No. 85 and No. 86 had no effect on beginning net position/fund balance.

CITY OF WAUSEON, OHIO

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

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

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

	Governmental Activities	Business-type Activities	Water Fund	Wastewater Fund
Net position December 31, 2017	\$16,155,751	\$15,984,440	\$7,623,413	\$8,361,027
Adjustments:				
Net OPEB Liability	(3,424,000)	(561,621)	(329,667)	(231,954)
Deferred Outflow - Payments Subsequent to the Measurement Date	17,482	7,425	3,958	3,467
Restated Net Position December 31, 2017	<u>\$12,749,233</u>	<u>\$15,430,244</u>	<u>\$7,297,704</u>	<u>\$8,132,540</u>

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

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	\$255,978	\$255,978
Prepaid Items	47,627	0	0	47,627
Supplies Inventory	30,084	0	22,082	52,166
Total Nonspendable	<u>77,711</u>	<u>0</u>	<u>278,060</u>	<u>355,771</u>
Restricted:				
Street Improvements	0	0	923,924	923,924
Parks and Recreation	0	0	33,237	33,237
Drug and Alcohol Treatment and Education	0	0	87,522	87,522
Community Development and Improvement	0	0	236,032	236,032
Total Restricted	<u>0</u>	<u>0</u>	<u>1,280,715</u>	<u>1,280,715</u>
Committed:				
Capital Improvements	0	2,233,327	0	2,233,327
Assigned:				
Budget Resource	284,450	0	0	284,450
Services and Supplies	18,459	0	0	18,459
Total Assigned	<u>302,909</u>	<u>0</u>	<u>0</u>	<u>302,909</u>
Unassigned:				
	<u>236,934</u>	<u>0</u>	<u>0</u>	<u>236,934</u>
Total Fund Balances	<u>\$617,554</u>	<u>\$2,233,327</u>	<u>\$1,558,775</u>	<u>\$4,409,656</u>

CITY OF WAUSEON, OHIO

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

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

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

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 \$5,823,775 and the bank balance was \$6,287,352. Federal depository insurance covered the entire bank balance.

The City had restricted cash in the amount of \$236,032, 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 \$51,590, which was related to permissive tax monies held and secured by Fulton County. The City had petty cash in the amount of \$850.

CITY OF WAUSEON, OHIO

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

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

B. Investments

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

	Fair Value	Credit Rating	Fair Value Hierarchy	Concentration of Credit Risk	Investment Maturities (in Years)	
					less than 1	1-3
Money Market ⁴	\$662,034	AA+ ¹ /Aaa ²	NA	30.64%	\$662,034	\$0
Marketable CD's	748,644	AAA ³	Level 2	34.63%	274,585	474,059
FHLB	168,298	AA+ ¹ /Aaa ²	Level 2	7.79%	168,298	0
FHLMC	162,399	AA+ ¹ /Aaa ²	Level 2	7.52%	0	162,399
FFCB	169,878	AA+ ¹ /Aaa ²	Level 2	7.86%	169,878	0
FNMA	249,725	AAA ¹ /Aaa ²	Level 2	11.56%	0	249,725
Total Investments	\$2,160,978			100.00%	\$1,274,795	\$886,183

¹ Standard & Poor's

² Moody's Investor Service

³ All are fully FDIC insured and therefore have an implied AAA credit rating

⁴ 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	\$5,301,215	\$2,735,978
Cash with Fiscal Agent	(51,590)	
Petty Cash	(850)	
Investments:		
Certificates of Deposit	575,000	(575,000)
Per GASB Statement No. 3	<u>\$5,823,775</u>	<u>\$2,160,978</u>

CITY OF WAUSEON, OHIO

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

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 2018 were levied after October 1, 2017 on assessed values as of January 1, 2017, 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, 2018 was \$4.80 per \$1,000 of assessed value. The assessed value upon which the 2018 levy was based was \$125,641,600. This amount constitutes \$118,160,150 in real property assessed value and \$7,481,450 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

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

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, 2018.

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated For the year 2018</u>
<i>Community Reinvestment Area (CRA)</i>	
Manufacturing/Commercial	\$9,167
Residential	3,142
	<u>\$12,309</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, 2018 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, 2018**

NOTE 7 - TRANSFERS

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

Fund	Transfer In	Transfer Out
Income Tax Capital Improvement Fund	\$0	\$220,263
Other Governmental Funds	516,173	295,910
Totals	<u>\$516,173</u>	<u>\$516,173</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, 2018:

Historical Cost:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
<i>Capital assets not being depreciated:</i>				
Land	\$1,504,579	\$162,800	\$0	\$1,667,379
Construction in Progress	1,214,013	0	(1,214,013)	0
Subtotal	<u>2,718,592</u>	<u>162,800</u>	<u>(1,214,013)</u>	<u>1,667,379</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,643,707	2,457,851	0	6,101,558
Improvements Other than Buildings	3,631,033	54,504	0	3,685,537
Machinery and Equipment	4,331,059	382,574	(37,766)	4,675,867
Infrastructure	11,163,780	43,414	0	11,207,194
Subtotal	<u>22,769,579</u>	<u>2,938,343</u>	<u>(37,766)</u>	<u>25,670,156</u>
Total Cost	<u>\$25,488,171</u>	<u>\$3,101,143</u>	<u>(\$1,251,779)</u>	<u>\$27,337,535</u>

Accumulated Depreciation:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
Buildings	(\$2,459,702)	(\$160,412)	\$0	(\$2,620,114)
Improvements Other than Buildings	(1,271,985)	(114,077)	0	(1,386,062)
Machinery and Equipment	(2,321,964)	(312,701)	24,451	(2,610,214)
Infrastructure	(3,304,644)	(332,841)	0	(3,637,485)
Total Accumulated Depreciation	<u>(\$9,358,295)</u>	<u>(\$920,031) *</u>	<u>\$24,451</u>	<u>(\$10,253,875)</u>
<i>Net Value:</i>	<u>\$16,129,876</u>			<u>\$17,083,660</u>

CITY OF WAUSEON, OHIO

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

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	\$141,588
Basic Utility Services	49,455
Leisure Time Activities	165,501
Transportation	459,398
General Government	<u>104,089</u>
Total Depreciation Expense	<u><u>\$920,031</u></u>

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, 2018.

B. Business-Type Activities Capital Assets

Summary by category of changes in business-type activities capital assets at December 31, 2018:

Historical Cost:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
<i>Capital assets not being depreciated:</i>				
Land	\$103,710	\$0	\$0	\$103,710
Construction in Progress	186,000	0	(186,000)	0
Subtotal	<u>289,710</u>	<u>0</u>	<u>(186,000)</u>	<u>103,710</u>
<i>Capital assets being depreciated:</i>				
Buildings	8,561,210	852,953	0	9,414,163
Improvements other than Buildings	15,394,840	0	0	15,394,840
Machinery and Equipment	5,502,065	1,013,780	(85,111)	6,430,734
Subtotal	<u>29,458,115</u>	<u>1,866,733</u>	<u>(85,111)</u>	<u>31,239,737</u>
Total Cost	<u><u>\$29,747,825</u></u>	<u><u>\$1,866,733</u></u>	<u><u>(\$271,111)</u></u>	<u><u>\$31,343,447</u></u>

Accumulated Depreciation:

Class	December 31, 2017	Additions	Deletions	December 31, 2018
Buildings	(\$4,977,339)	(\$254,673)	\$0	(\$5,232,012)
Improvements other than Buildings	(5,713,150)	(361,682)	0	(6,074,832)
Machinery and Equipment	(4,404,902)	(167,147)	76,600	(4,495,449)
Total Accumulated Depreciation	<u>(\$15,095,391)</u>	<u>(\$783,502)</u>	<u>\$76,600</u>	<u>(\$15,802,293)</u>
<i>Net Value:</i>	<u><u>\$14,652,434</u></u>			<u><u>\$15,541,154</u></u>

CITY OF WAUSEON, OHIO

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

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

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

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):

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

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CITY OF WAUSEON, OHIO

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$265,645 for 2018.

CITY OF WAUSEON, OHIO

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

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 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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$311,252 for 2018.

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

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF’s total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The 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:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$2,197,525	\$3,559,993	\$5,757,518
Proportion of the Net Pension Liability-2018	0.014008%	0.058004%	
Proportion of the Net Pension Liability-2017	0.014036%	0.054345%	
Percentage Change	(0.000028%)	0.003659%	
Pension Expense	\$435,609	\$624,630	\$1,060,239

CITY OF WAUSEON, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Changes in assumptions	\$262,619	\$155,127	\$417,746
Differences between expected and actual experience	2,245	54,026	56,271
Change in proportionate share	0	817,968	817,968
City contributions subsequent to the measurement date	<u>265,645</u>	<u>311,252</u>	<u>576,897</u>
Total Deferred Outflows of Resources	<u>\$530,509</u>	<u>\$1,338,373</u>	<u>\$1,868,882</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$471,781	\$123,146	\$594,927
Differences between expected and actual experience	43,306	6,443	49,749
Change in proportionate share	<u>39,892</u>	<u>44,079</u>	<u>83,971</u>
Total Deferred Inflows of Resources	<u>\$554,979</u>	<u>\$173,668</u>	<u>\$728,647</u>

\$576,897 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2019	\$161,327	\$289,745	\$451,072
2020	(49,832)	257,371	207,539
2021	(207,745)	210,159	2,414
2022	(193,865)	5,186	(188,679)
2023	0	73,388	73,388
2024	<u>0</u>	<u>17,604</u>	<u>17,604</u>
Total	<u>(\$290,115)</u>	<u>\$853,453</u>	<u>\$563,338</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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	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	\$3,902,235	\$2,197,525	\$776,301

CITY OF WAUSEON, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF

OPF’s total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

* levered 2x

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

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

CITY OF WAUSEON, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$4,935,083	\$3,559,993	\$2,438,480

NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

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

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contractually required contribution to OP&F was \$7,371 for 2018.

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

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$1,520,497	\$3,286,449	\$4,806,946
Proportion of the Net OPEB Liability-2018	0.014002%	0.058004%	
Proportion of the Net OPEB Liability-2017	<u>0.013920%</u>	<u>0.054345%</u>	
Percentage Change	<u>0.000082%</u>	<u>0.003659%</u>	
OPEB Expense	\$128,818	\$279,183	\$408,001

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Changes in assumptions	\$110,708	\$320,687	\$431,395
Differences between expected and actual experience	1,185	0	1,185
Change in proportionate share	5,580	159,396	164,976
City contributions subsequent to the measurement date	<u>0</u>	<u>7,371</u>	<u>7,371</u>
Total Deferred Outflows of Resources	<u>\$117,473</u>	<u>\$487,454</u>	<u>\$604,927</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$113,266	\$21,633	\$134,899
Differences between expected and actual experience	0	16,575	16,575
Change in proportionate share	<u>0</u>	<u>7,851</u>	<u>7,851</u>
Total Deferred Inflows of Resources	<u>\$113,266</u>	<u>\$46,059</u>	<u>\$159,325</u>

\$7,371 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2019	\$27,847	\$61,208	\$89,055
2020	27,847	61,208	89,055
2021	(23,172)	61,208	38,036
2022	(28,315)	61,207	32,892
2023	0	66,616	66,616
2024	0	66,616	66,616
2025	<u>0</u>	<u>55,961</u>	<u>55,961</u>
Total	<u>\$4,207</u>	<u>\$434,024</u>	<u>\$438,231</u>

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions - OPERS

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

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

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$2,020,041	\$1,520,497	\$1,116,365

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

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

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$1,454,788	\$1,520,497	\$1,588,366

Actuarial Assumptions – OP&F

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

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

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

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

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

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

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

Note: Assumptions are geometric.

* levered 2x

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$4,108,100	\$3,286,449	\$2,654,223

CITY OF WAUSEON, OHIO

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

NOTE 10 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$2,552,972	\$3,286,449	\$4,274,926

Changes between Measurement Date and Report Date

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

CITY OF WAUSEON, OHIO

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

NOTE 11 - LONG-TERM OBLIGATIONS

Activity in Long-Term Obligations in 2018 was as follows:

Interest Rate	Purpose	Maturity Date	Restated Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018	Amount Due Within One Year
Governmental Activities:							
General Obligation Bonds:							
2.0-5.0%	Street Improvement	2029	\$2,065,000	\$0	(\$140,000)	\$1,925,000	\$145,000
1.85%	Pool Improvements	2020	860,000	0	(280,000)	580,000	285,000
Total General Obligation Bonds			2,925,000	0	(420,000)	2,505,000	430,000
Net Pension Liability:							
Ohio Public Employees Retirement System			1,908,899	0	(589,174)	1,319,725	0
Ohio Police and Fire Pension Fund			3,442,162	117,831	0	3,559,993	0
Total Net Pension Liability			5,351,061	117,831	(589,174)	4,879,718	0
Net OPEB Liability:							
Ohio Public Employees Retirement System			844,362	68,771	0	913,133	0
Ohio Police and Fire Pension Fund			2,579,638	706,811	0	3,286,449	0
Total Net OPEB Liability			3,424,000	775,582	0	4,199,582	0
Compensated Absences			271,084	190,126	(135,636)	325,574	165,908
Total Governmental Activities			11,971,145	1,083,539	(1,144,810)	11,909,874	595,908
Business-Type Activities:							
Ohio Water Development Authority Loans:							
3.34%	Wastewater Treatment Plant	2031	2,239,098	0	(133,733)	2,105,365	138,236
3.39%	Tedrow Water Supply Improvements	2024	116,424	0	(17,811)	98,613	18,420
Total Ohio Water Development Authority Loans			2,355,522	0	(151,544)	2,203,978	156,656
Long Term Note Payable:							
1.44%	Water Improvements	2018	920,000	0	(920,000)	0	0
2.75%	Water Improvements	2019	0	700,000	0	700,000	700,000
Net Pension Liability:							
Ohio Public Employees Retirement System			1,278,528	0	(400,728)	877,800	0
Net OPEB Liability:							
Ohio Public Employees Retirement System			561,621	45,743	0	607,364	0
Compensated Absences			105,179	78,604	(57,271)	126,512	64,044
Total Business-Type Activities			5,220,850	824,347	(1,529,543)	4,515,654	920,700
Total Long-Term Obligations			\$17,191,995	\$1,907,886	(\$2,674,353)	\$16,425,528	\$1,516,608

CITY OF WAUSEON, OHIO

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

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 2018 will mature on August 14, 2019 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 2017 notes payable, which matured on August 15, 2018.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2018 are as follows:

Years	Governmental Activities		Business-Type Activities			
	General Obligation Bonds		Long Term Note		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$430,000	\$87,318	\$700,000	\$19,250	\$156,656	\$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	165,000	53,638	0	0	178,892	50,064
2024-2028	940,000	162,990	0	0	872,504	164,548
2029-2031	210,000	8,925	0	0	493,526	24,999
Totals	\$2,505,000	\$516,843	\$700,000	\$19,250	\$2,203,978	\$495,610

The City's total debt margin was \$10,687,368 at December 31, 2018. 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

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

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. From December 4, 2017 until December 4, 2018, 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	\$27,849,968/1,000	per occurrence
Personal Property	\$8,040,704/1,000	per occurrence
Automobile/Equipment	\$2,709,756/500-1,000	per occurrence

On December 4 2018, the City began participation with the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2017.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

CITY OF WAUSEON, OHIO

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

NOTE 12 - RISK MANAGEMENT (Continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017 (latest available information).

Assets	\$14,853,620
Liabilities	<u>(9,561,108)</u>
Members' Equity	<u>\$5,292,512</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

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, 2018.

B. Litigation

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

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.

CITY OF WAUSEON, OHIO

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

NOTE 15 - SIGNIFICANT COMMITMENTS

The City had the following contractual commitments at December 31, 2018:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Expected Date of Completion</u>
Bio-Solids Handling Project	<u>\$706,588</u>	July 2019
	<u><u>\$706,588</u></u>	

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

<u>Fund</u>	<u>Encumbrances</u>
General Fund	\$21,211
Income Tax Capital Improvement Fund	168,646
Other Governmental Funds	<u>12,019</u>
Total Governmental Funds	<u><u>\$201,876</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WAUSEON, OHIO

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

Ohio Public Employees Retirement System

Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability (asset)	0.014942%	0.014942%	0.014871%
City's proportionate share of the net pension liability (asset)	\$1,761,466	\$1,802,173	\$2,575,776
City's covered payroll	\$1,771,000	\$1,833,108	\$1,849,525
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	99.46%	98.31%	139.27%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%

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

Ohio Police and Fire Pension Fund

Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability (asset)	0.034306%	0.034306%	0.045984%
City's proportionate share of the net pension liability (asset)	\$1,670,815	\$1,777,200	\$2,958,215
City's covered payroll	\$735,191	\$740,729	\$968,361
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	227.26%	239.93%	305.49%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%

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.

See accompanying notes to the required supplementary information

CITY OF WAUSEON, OHIO

<u>2017</u>	<u>2018</u>
0.014036%	0.014008%
\$3,187,427	\$2,197,525
\$1,814,492	\$1,851,115
175.67%	118.71%
77.25%	84.66%

<u>2017</u>	<u>2018</u>
0.054345%	0.058004%
\$3,442,162	\$3,559,993
\$1,188,754	\$1,279,061
289.56%	278.33%
68.36%	70.91%

CITY OF WAUSEON, OHIO

***Schedule of City Pension Contributions
Last Six Years***

Ohio Public Employees Retirement System

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

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>
Contractually required contribution	\$109,635	\$143,264	\$197,290
Contributions in relation to the contractually required contribution	<u>109,635</u>	<u>143,264</u>	<u>197,290</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered payroll	\$735,191	\$740,729	\$968,361
Contributions as a percentage of covered payroll	14.91%	19.34%	20.37%

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.

See accompanying notes to the required supplementary information

CITY OF WAUSEON, OHIO

<u>2016</u>	<u>2017</u>	<u>2018</u>
\$217,739	\$240,645	\$265,645
<u>217,739</u>	<u>240,645</u>	<u>265,645</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,814,492	\$1,851,115	\$1,897,464
12.00%	13.00%	14.00%

<u>2016</u>	<u>2017</u>	<u>2018</u>
\$247,207	\$268,120	\$311,252
<u>247,207</u>	<u>268,120</u>	<u>311,252</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,188,754	\$1,279,061	\$1,474,274
20.80%	20.96%	21.11%

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CITY OF WAUSEON, OHIO

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

Ohio Public Employees Retirement System

Year	<u>2017</u>	<u>2018</u>
City's proportion of the net OPEB liability (asset)	0.013920%	0.014002%
City's proportionate share of the net OPEB liability (asset)	\$1,405,983	\$1,520,497
City's covered payroll	\$1,814,492	\$1,851,115
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	77.49%	82.14%
Plan fiduciary net position as a percentage of the total OPEB liability	54.50%	54.14%

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

Ohio Police and Fire Pension Fund

Year	<u>2017</u>	<u>2018</u>
City's proportion of the net OPEB liability (asset)	0.054345%	0.058004%
City's proportionate share of the net OPEB liability (asset)	\$2,579,638	\$3,286,449
City's covered payroll	\$1,188,754	\$1,279,061
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	217.00%	256.94%
Plan fiduciary net position as a percentage of the total OPEB liability	15.96%	14.13%

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

Notes: The City implemented GASB Statement 75 in 2018.

Information prior to 2016 is not available.

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

See accompanying notes to the required supplementary information

CITY OF WAUSEON, OHIO

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

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$17,710	\$36,662	\$36,991
Contributions in relation to the contractually required contribution	<u>17,710</u>	<u>36,662</u>	<u>36,991</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered payroll	\$1,771,000	\$1,833,108	\$1,849,525
Contributions as a percentage of covered payroll	1.00%	2.00%	2.00%

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>
Contractually required contribution	\$24,802	\$3,704	\$4,842
Contributions in relation to the contractually required contribution	<u>24,802</u>	<u>3,704</u>	<u>4,842</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered payroll	\$735,191	\$740,729	\$968,361
Contributions as a percentage of covered payroll	3.37%	0.50%	0.50%

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

Notes: The City implemented GASB Statement 75 in 2018.

Information prior to 2013 is not available.

See accompanying notes to the required supplementary information

CITY OF WAUSEON, OHIO

<u>2016</u>	<u>2017</u>	<u>2018</u>
\$36,290	\$18,511	\$0
<u>36,290</u>	<u>18,511</u>	<u>0</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,814,492	\$1,851,115	\$1,897,464
2.00%	1.00%	0.00%

<u>2016</u>	<u>2017</u>	<u>2018</u>
\$5,944	\$6,396	\$7,371
<u>5,944</u>	<u>6,396</u>	<u>7,371</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,188,754	\$1,279,061	\$1,474,274
0.50%	0.50%	0.50%

CITY OF WAUSEON, OHIO

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

NET PENSION LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

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

Changes in assumptions:

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

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

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

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

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

Changes in assumptions:

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

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

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

CITY OF WAUSEON, OHIO

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

NET OPEB LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

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

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

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

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

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(419) 245-2811 or (800) 443-9276
NorthwestRegion@ohioauditor.gov

**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, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 12, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

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*.

City's Response to Finding

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

November 12, 2019

**CITY OF WAUSEON
FULTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2018-001

Material Weakness – Income Tax Receipts

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The City's former Income Tax Commissioner was responsible for the majority of income tax functions. The duties included collecting the monies, issuing the customer a receipt, recalculating the income tax return, posting the transaction to the City's income tax software, preparing the deposits, and depositing the monies into the City's designated depository. The lack of segregation of duties or compensating controls resulted in the following discrepancies with income tax returns:

- 6% of the City income tax returns were not signed by the taxpayer to complete the filing requirements.
- None of the tax returns were initialed by the former Income Tax Commissioner to indicate it was timely reviewed and recalculated.
- \$3,448 was identified as cash received by the former Income Tax Commissioner which was incorrectly posted to the income tax software as a miscellaneous credit rather than a cash receipt. Miscellaneous credits are only to be used if an individual paid taxes to another entity, therefore the amounts owed to the City of Wauseon would get reduced by that amount. Based on the supporting tax returns and receipts, these payments would not have qualified as a miscellaneous credit and were actual payments for City income taxes.
- \$6,574 was identified as cash received by the former Income Tax Commissioner with no evidence of the receipt being posted to the income tax software.

Failing to have adequate segregation of duties or compensating controls could result in errors or irregularities occurring without detection. In addition, there was no evidence of the above monies being deposited with the City. On August 27, 2019, Auto Owners Insurance Company, the former Income Tax Commissioner's bonding company, issued a check to the City of Wauseon for \$10,023 to pay the claim for the monies unaccounted for.

To strengthen internal controls the City should develop policies and procedures to establish segregation of duties and/or internal controls which includes, but not limited to:

- Regularly monitoring income tax collections (including estimated tax receipts),
- Verify posting to the income tax system,
- Perform the recalculation of the income tax returns,
- Having another designated employee prepare the daily income tax deposit and take it to the designated depository,
- All city income tax returns should be signed by the taxpayer as well as the tax preparer. City tax returns and annual business tax reconciliations should be recalculated by the Tax Commissioner to ensure accuracy and that payment was made in full. In the event that the Tax Commissioner prepares the return for the taxpayer, another designated employee should review the return for accuracy. These documents should be initialed and dated by the reviewer as evidence of the procedure being performed.

Officials' Response:

Upon realization of the deficiencies in the Income Tax Department, the City has taken the following steps to strengthen the internal controls within the department:

- Created a new policy for cash deposits. The cash collected is verified by the Assistant Finance Director by comparing receipts issued to tax payers with actual cash to be deposited. The Assistant Finance Director creates the deposit slip and the Finance Director takes the deposit to the bank. Check deposits are remotely deposited by the Utility Clerk.
- The Finance Director compares the Income Tax Receipts in the Tax software with the Income Tax Receipts in the Finance software monthly.
- Created a new policy for auditing tax returns. The Income Tax Commissioner recalculates every return (individual, business and employer withholding) and enters an "audit" flag in the Income Tax software. If the Income Tax Commissioner prepares the return the "audit" is performed by the Assistant Finance Director. The Income Tax Commissioner no longer enters the Income Tax Return into the software without the tax payer's signature. If the signature is missing the tax payer is notified via letter and required to sign the tax form prior to entry into the tax software.

OHIO AUDITOR OF STATE KEITH FABER



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
DECEMBER 5, 2019**